

**DOD 1401.1-M
DECEMBER 1988**



PERSONNEL POLICY MANUAL FOR NONAPPROPRIATED FUND INSTRUMENTALITIES

**Administrative Reissuance Incorporating
Through Change 9, April 7, 2000**

**OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
(FORCE MANAGEMENT AND PERSONNEL)**



FORCE MANAGEMENT
AND PERSONNEL

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-4000

December 13, 1988

FOREWORD

This Manual is reissued under the authority of DoD Instruction 1401.1, "Personnel Policy for Nonappropriated Fund Instrumentalities (NAFIs)," November 15, 1985. It supersedes and cancels DoD 1401.1-M, "Personnel Policy Manual for Nonappropriated Fund Instrumentalities," February 1987, and all changes through December 15, 1987. This reissuance incorporates administrative changes as well as authorized and coordinated policy changes.

This Manual applies to DoD civilian and off-duty military employees of Nonappropriated Fund Instrumentalities (NAFIs) worldwide, whose compensation is derived from nonappropriated funds, except for the following exclusions:

1. Employees of private organizations which have been authorized by appropriate military authority.
2. Civil Service and U.S. military personnel assigned to morale, welfare, or recreation activities.
3. Independent contractors (such as professional entertainers and sports officials), where no employer and employee relationship exists.
4. Individuals employed by private contractors and concessionaires who do business with NAFIs.
5. Local nationals or third country nationals employed in Guam, other U.S. areas, or in foreign areas who may be subject to the provisions of treaties or country-to-country agreements.

The Manual is effective immediately and is mandatory for use by all DoD Components. Heads of DoD Components may issue supplementary instructions only when necessary to provide for unique requirements within their respective Components.

Recommendations for changes may be submitted to:

Director for NAF Personnel Policies, OASD (FM&P)
The Pentagon
Washington, D.C. 20301

A handwritten signature in cursive script, reading "Claire E. Freeman".

CLAIRE E. FREEMAN
Deputy Assistant Secretary of Defense
(Civilian Personnel Policy)

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[This information is now published in DoD 1400.25-M. "Civilian Personnel Manual," Subchapter 85
1405, Appendix A]

REFERENCES

This list may not be complete. Heads of DoD Components shall ensure compliance with all applicable Executive Orders, laws, rules, regulations, etc., including those that may not be listed below.

EXECUTIVE ORDERS

- 11137 "Relating to Certain Allowances and Benefits for Civilian Employees of Nonappropriated Fund Instrumentalities of the Armed Forces," January 7, 1964. Amended by EO 11382 on November 28, 1967.
- 11222 "Prescribing Standards of Ethical Conduct for Government Officers and Employees," May 8, 1965. Amended by EO 12565 on September 25, 1986.
- 11478 "Equal Employment Opportunity in the Federal Government," August 8, 1969. Amended by EO 12106 on December 28, 1978.
- 12568 "Employment Opportunities for Military Spouses at Nonappropriated Fund Activities," October 2, 1986.
- 12674 "Fundamental Principles of Ethical Conduct for all Executive Branch Employees," April 12, 1989. Amended by EO 12731 on October 17, 1990.
- 12871 "Labor-Management Partnerships," October 1, 1993.
- 12953 "Actions Required of all Executive Agencies to Facilitate Payment of Child Support," February 27, 1995.

PUBLIC LAWS

- 88-448 "Dual Compensation Act of 1964," August 19, 1964.
- 90-40 "Military Selective Service Act of 1967," June 30, 1967, as amended.
- 92-261 "Equal Employment Opportunity Act of 1972," March 24, 1972.
- 92-392 "Government Employees-Prevailing Rate System," August 19, 1972. An Act to provide an equitable system for fixing and adjusting the rates of pay for prevailing rate employees of the Government, and for other purposes.
- 92-576 "Longshoremen's and Harbor Workers' Compensation Act," October 27, 1972. Provides compensation rules for NAF employees injured on the job. Amended in 1984 by P. L. 98-426.
- 93-259 "Fair Labor Standards Amendments of 1974," April 8, 1974. Amends the Fair Labor Standards Act of 1938, to cover nonsupervisory Federal employees under its provisions for minimum wage, overtime and nondiscrimination because of age. Amended on November 17, 1991, by P. L. 101-157.
- 93-406 "Employee Retirement Income Security Act," September 2, 1974.
- 93-579 "Privacy Act of 1974," December 31, 1974. Amends title 5, United States

- Code by adding Section 552a to safeguard individual privacy from the misuse of Federal records, and to provide that individuals be granted access to records.
- 95-256 "Age Discrimination in Employment Act Amendments of 1978," April 6, 1978. Amends the Age Discrimination in Employment Act of 1967 to extend the age group of employees who are protected by the Act.
- 95-454 "Federal Service Labor-Management Relations Act," October 13, 1978. Amended on June 13, 1991 by P. L 102-54.
- 95-595 "Budget and Accounting Procedures Act of 1978," November 4, 1978. Amends the 1950 act to require that the Comptroller General provide for a financial audit with respect to pension plans for employees of the Federal Government, its Agencies, and instrumentalities; to require that an annual report, including a financial statement and an actuarial statement, be furnished to Congress and the Comptroller General with respect to such plans; and for other purposes.
- 96-70 "Panama Canal Act of 1979," September 27, 1979. Provides for the operation and maintenance of the Panama Canal under the Panama Canal Treaty of 1977.
- 97-35 "OMNIBUS Budget Reconciliation Act of 1981," August 13, 1981. Includes NAFIs within the definition of employee for purposes of the Health Maintenance Organization Act (Title IX, Section 946(b)).
- 98-94 "Department of Defense Authorization Act, 1984," September 24, 1983. Section 1253, "Employment Protection for Certain Nonappropriated Fund Instrumentality Employees," amends Chapter 81 of title 10, United States Code, by adding Section 1587 concerning "whistleblower" protection.
- 98-397 "The Retirement Equity Act of 1984," August 23, 1984. Provides greater equity under pension plans for workers and their spouses and dependents by taking into account changes in work patterns, the status of marriage as an economic partnership, and the substantial contribution to that partnership of spouses.
- 99-145 "Department of Defense Authorization Act, 1986," November 8, 1985, Section 806, "Employment Opportunities for Military Spouses."
- 99-603 "Immigration Reform and Control Act of 1986," November 6, 1986. Makes it unlawful to hire, recruit, or refer for a fee for employment, unauthorized aliens in the United States. This law necessitated a rule promulgated by the Immigration and Naturalization Service, U.S. Department of Justice. The rule provides for an employment eligibility verification system designed to prevent the employment of unauthorized aliens.
- 99-638 "Nonappropriated Fund Instrumentalities Employees Retirement Credit Act of 1986," November 2, 1986. Provides credit under CSRS for certain NAF service performed after June 18, 1952, and before January 1, 1966.
- 101-189 "Military Child Care Act of 1989," November 29, 1989. Provides compensation rules for NAF employees in child care positions.
- 101-508 "Portability of Benefits for Nonappropriated Fund Employees Act of 1990," November 5, 1990. Section 7202 imposes employee benefit portability

requirements when civil service employees move to NAF (& vice versa).

- 101-509 "Treasury, Postal Service and General Government Appropriations Act, 1991," November 5, 1990. Section 210 (Premium pay amendments) of section 529 (Federal Employees Pay Comparability Act of 1990) amends Subchapter V of 5 U.S.C. Chapter 55.
- 101-510 "National Defense Authorization Act for Fiscal Year 1991," November 5, 1990. Section 331, "Assistance Program for Employees of a NAFI Adversely Affected by Base Closures," amends Section 1013 of the Demonstration Cities and Metropolitan Development Act of 1966 to include NAF employees in homeowner's assistance coverage. Also, adds 10 U.S.C. Chapter 58, Section 1143(d) to grant hiring preference in NAF positions to eligible involuntarily separated military members and their dependents.
- 101-647 "Crime Control Act of 1990," November 29, 1990. Section 231 requires in part that every facility operated by the Federal Government or operated under contract with the Federal Government, that hires or contracts for individuals who have regular contact with children in the provision of child care services to children under the age of 18 years, conduct a criminal history check for all current and newly hired employees.
- 102-190 "National Defense Authorization Act for Fiscal Years 1992 and 1993," December 5, 1991. Section 661, which added section 1174a of title 10 U.S.C. 1174a, provides preference in hiring in NAF jobs for members of the Armed Forces, involuntarily or voluntarily separated with Special Separation Benefit (SSB) pay, and their dependents.
- 102-484 "Defense Conversion, Reinvestment, and Transition Assistance Act of 1992," October 23, 1992. Division D, Subtitle C, provides civilian personnel transition initiatives, including separation pay for appropriated fund employees.
- 103-3 "Family and Medical Leave Act of 1993," February 5, 1993. Provides eligible employees up to 12 administrative workweeks of leave without pay during a 12-month period to take care of certain family and medical needs.
- 103-94 "Hatch Act Reform Amendments of 1993," October 6, 1993. Permits Federal employees to participate in certain political activities on their own time. Section 9 allows the garnishment of Federal pay in order to settle commercial debts.
- 103-226 "Federal Workforce Restructuring Act of 1994," March 30, 1994. Restricts employees who resign or retire with an incentive on or after March 30, 1994, from re-employment with the U.S. Government for five years following separation with an incentive unless the incentive is repaid.
- 103-337 "National Defense Authorization Act for Fiscal Year 1995," October 5, 1994. Section 343 limits payment of severance pay to certain appropriated fund employees transferring to NAF positions.
- 103-353 "Uniformed Services Employment and Reemployment Rights Act of 1994," October 13, 1994. Amends title 38 U.S.C. to improve reemployment rights and

benefits of veterans and other benefits of employment of certain members of the Uniformed Services, and other purposes.

UNITED STATES CODE

Title 5 - Government Organization and Employees. Sections as amended:

- 2105 (status of nonappropriated fund employees)
- 2108 (veterans preference eligibility)
- 3110 (restrictions in the employment of relatives)
- 3326 ("Appointments of retired members of the Armed Forces to positions in the Department of Defense.
- 3502(a)(C)(ii) (portability of benefits - order of retention in reduction-in-force)
- 5332 (GS pay rates)
- 5334(g) (portability of benefits - rate on change of position)
- 5335(g) (portability of benefits - periodic step-increases)
- 5341 - 5349 ("Prevailing rate system")
- 5342 (prevailing rate system - definitions)
- 5361 - 5366 (grade and pay retention instructions applicable to Federal Wage System employees and to employees involuntarily moved to the civil service)
- 5373 ("Limitation on pay fixed by administrative action")
- 5531 - 5532 - 5533 ("Dual pay and dual employment")
- 5544 ("Wage-board overtime and Sunday rates; computation")
- 5551(a) (portability of benefits - "Lump-sum payment for accumulated and accrued leave on separation")
- 5595(b)(2)(c) and (h) ("Severance pay")
- 5753 ("Recruitment and relocation bonus")
- 5754 ("Retention allowance")
- 5911 (entitlement of quarters and facilities by civilian employees in the United States)
- 6304(a) ("Annual leave; accumulation")
- 6308(b) (portability of benefits - "Transfers between positions under different leave system")
- 6312(a)(2) (portability of benefits - leave accrual and accumulation)
- 7101 - 7103 ("Labor management relations")
- 7204 ("Antidiscrimination in Employment; Other prohibition")
- 7324 (influencing elections; taking part in political campaigns; prohibitions; exceptions)
- 7901 (health services programs for civilian employees)
- 7902 (legal status of civilian NAF employees with regard to safety programs)

- 8171 (extends the provisions of the Longshoremen's and Harbor Workers' Compensation Act to NAF employees)
- 8423 (portability of benefits - "Government contribution")
- 8501 - 8509 ("Unemployment compensation")
- Title 10 - Armed Forces. Sections as amended:
 - 1143(d) (employment preference by NAFIs)
 - 1580 - 1599 (concerns "Whistleblower" protection for NAF employees)
- Title 29 - Labor. Sections as amended:
 - 201 - 219 (implements provisions of the Fair Labor Standards Act)
 - 1651 (Joint Training Partnership Act Provisions)
- Title 31 - Money and Finance. Section as amended:
 - 1349 (requires at least one month suspension for certain motor vehicle and aircraft use violations)
- Title 33 - Navigation and Navigable Waters (Chapter 18 of title 33 (Longshore and Harbor Workers' Compensation Act) applies with respect to disability or death resulting from injury, as defined by section 902(2) of title 33, occurring to an employee of a nonappropriated fund instrumentality)
- Title 38 - Veterans Benefits. Sections as amended:
 - 101 (definitions)
 - 301 (definitions)
 - 2021 - 2026 ("Veterans' reemployment rights")
- Title 42 - The Public Health and Welfare. Sections as amended:
 - 300e-9 Health Maintenance Organizations
 - 410 Social Security (nonappropriated fund employees)
 - 659 (authorizes the garnishment of Federal salaries and retirees annuities and Social Security benefits, to enforce obligations of alimony and child support)

CODE OF FEDERAL REGULATIONS

- Title 5 - Administrative Personnel. Parts as amended:
 - Part 310 Employment of Relatives
 - Part 530 Subpart B--Aggregate Limitation on Pay
 - Part 531 Subpart F--Locality-Based Comparability Payments
 - Part 532 Prevailing Rate Systems
 - Part 536 Grade and Pay Retention
 - Part 551 Pay Administration Under the Fair Labor Standards Act
 - Part 575 Recruitment and Relocation Bonuses; Retention Allowances
 - Part 731 Suitability
- Title 20 - Employees' Benefits. Part as amended:

Part 609 Unemployment Compensation for Federal Civilian Employees

OPM OPERATING MANUALS AND OTHER PUBLICATIONS

Federal Wage System - NAF

The Guide to Processing Personnel Actions

The CSRS and FERS Handbook for Personnel and Payroll Offices

The Federal Employees Group Life Insurance Handbook for Personnel and Payroll Offices

The Federal Employees Health Benefits Handbook for Personnel and Payroll Offices

The OPM Job Grading Standards for Trades and Labor Occupations

OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULARS

A-76 "Performance of Commercial Activities" (current edition)

DEPARTMENT OF STATE REGULATIONS

Department of State Standardized Regulations (Government Civilians - Foreign Areas), April 2, 1961, as amended:

Section 030 (eligibility for allowances and differentials)

Section 270 (education allowances for dependents of civilian personnel employed overseas)

GENERAL SERVICES ADMINISTRATION REGULATIONS

"Records Disposition Schedule for DoD NAF Employee Personnel Records," as approved by the General services Administration, National Archives and Records Service on June 29, 1983, as amended.

"Joint Travel Regulation" (Volume II) - payment for official travel and transportation of U.S. Government employees

DoD DIRECTIVES

1010.4 ["Alcohol and Drug Abuse by DoD Personnel,"](#) August 25, 1980

1010.9 ["DoD Civilian Employee Drug Abuse Testing Program,"](#) August 23, 1988

1015.6 ["Funding of Morale, Welfare and Recreation Programs,"](#) August 3, 1984

1342.13 ["Eligibility Requirements for Education of Minor Dependents in Overseas Areas,"](#) July 8, 1982

1400.5 ["DoD Policy for Civilian Personnel,"](#) March 21, 1983

1400.6 ["DoD Civilian Employees in Overseas Areas,"](#) February 15, 1980

1401.3 "Employment Protection for Certain Nonappropriated Fund Instrumentality Employees/Applicants," July 19, 1985

- 1402.1 "Employment of Retired Members of the Armed Forces," January 21, 1982
- 1426.1 "Labor-Management Relations in the Department of Defense," November 10, 1988
- 1440.1 "DoD Civilian Equal Employment Opportunity (EEO) Program," May 21, 1987
- 4165.50 "Homeowners Assistance Program," June 26, 1991
- 5120.39 "[Department of Defense Wage Fixing Authority Appropriated Fund Compensation,](#)" April 24, 1980
- 5120.42 "[Department of Defense Wage Fixing Authority Nonappropriated Fund Compensation Programs,](#)" May 19, 1977
- 5500.7 "[Standards of Conduct,](#)" August 30, 1993
- 5525.9 "[Compliance of DoD Members, Employees, and Family Members Outside the United States with Court Orders,](#)" December 27, 1988
- 7050.1 "[Defense Hotline Program,](#)" March 20, 1987

DoD INSTRUCTIONS

- 1010.15 "[Smoke-Free Workplace,](#)" March 7, 1994
- 1330.20 "[Reporting of Morale, Welfare and Recreational \(MWR\) Activities Personnel Information,](#)" September 4, 1980
- 1400.10 "Employment of Foreign Nationals in Foreign Areas," December 5, 1980
- 1400.23 "Employment of Family Members of Active Duty Military Members and Civilian Employees Stationed in Foreign Areas," May 12, 1989
- 1401.1 "Personnel Policy for Nonappropriated Fund Instrumentalities (NAFIs)," November 15, 1985
- 1404.12 "Employment of Spouses of Active Duty Military Members Stationed Worldwide," January 12, 1989
- 5010.39 "Work Force Motivation," November 16, 1984
- 6055.1 "[DoD Occupational Safety and Health Program,](#)" October 26, 1984
- 7000.12 "[Financial Management of Morale, Welfare, and Recreational Activities,](#)" May 27, 1987

DoD MANUALS AND REGULATIONS

- 1015.8-R "DoD Civilian Employee Morale, Welfare, and Recreation (MWR) Activities and Supporting Nonappropriated Fund Instrumentalities (NAFIs) Regulation," November 1985
- 1400.20-M-4 "A Civilian Personnel Office Manual to Downsizing and Base Closure," July 1992
- 1400.25-M "DoD Civilian Personnel Manual," July 1978
- 1401.1-M-1 "Job-Grading System Manual for Nonappropriated Fund Instrumentalities," October 1981

5200.2-R "DoD Personnel Security Program," January 1987

5000.12-M "DoD Manual for Standard Data Elements," July 1989

7000.14-R "Financial Management Regulation- Nonappropriated Fund Policy and Procedures," Volume 13, August 1994

OTHER DoD PUBLICATIONS AND DOCUMENTS

Defense Outplacement Referral System (DORS), Nonappropriated Fund (NAF) User's Guide

Defense Federal Acquisition Regulation Supplement, Parts 222.7100 - 222.7102, 252.222.7000 and 252.222.7001 (hiring preference for contractor positions related to closure or downsizing)

DoD/OPM Interchange Agreement between the Department of Defense and the Office of Personnel Management for the noncompetitive movement of personnel between the civil service system and the DoD NAF system, September 20, 1991

C1. CHAPTER 1

INTRODUCTION

C1.1. PURPOSE

C1.1.1. This Manual sets forth the personnel policies of the Department of Defense with respect to Nonappropriated Fund Instrumentality (NAFI) civilian employment consistent and in conformance with the principles and authorities contained in DoD Directives 1400.5, 1400.6, and 5120.42.

C1.1.2. The purposes to be served by these policies are:

C1.1.2.1. Ensure that employees of the NAFIs are treated equitably and fairly in accordance with applicable laws, executive orders, and other pertinent regulations.

C1.1.2.2. Provide the basis for achieving a desired degree of uniformity among NAFIs in the management of their personnel.

C1.1.2.3. Recognize and provide a basis for dealing with labor organizations.

C1.1.2.4. Promote those practices and processes that will facilitate obtaining, developing, and retaining a NAFI workforce of well qualified individuals.

C1.1.2.5. Achieve optimum utilization of available manpower resources.

C1.1.2.6. Recognize fully the contributions of the NAFIs to the overall morale, welfare, and recreation programs for military personnel, their dependents, and civilian employees of the Department of Defense by seeking to develop and maintain personnel programs that serve to preserve NAFI operational and financial integrity.

C1.2. RESPONSIBILITIES

C1.2.1. The Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)) is responsible for all personnel policy matters related to nonappropriated fund employees of the Department of Defense. Pursuant to DoD Directive 5120.42, the ASD (FM&P) shall establish the necessary formal and/or informal committees to develop, formulate and implement personnel policies for nonappropriated fund employees. Coordination within DoD, i.e., the Office of the

Secretary of Defense, the Military Departments, and the Defense Agencies (hereafter referred to collectively as "DoD Components"), are handled through normal staff channels.

C1.2.2. The ASD (FM&P) has designated the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) (DASD(CPP)) the administrator for this Manual. In this capacity the DASD (CPP) shall:

C1.2.2.1. Maintain the Manual in coordination with appropriate authorities and publish necessary revisions and changes in accordance with DoD Directives System Procedures.

C1.2.2.2. Maintain surveillance over the policies and programs set forth in the Manual, ensuring consistent implementation and continuous application throughout the Department of Defense.

C1.2.2.3. The Heads of DoD Components are delegated authority and responsibility to recruit, select, place, reassign, promote, terminate, and accomplish other related personnel transactions involving NAFI employees. Additionally, they are authorized to establish NAFI positions and, based on the duties and responsibilities assigned, to place each position in its appropriate pay category and to assign a title, code, and grade based on application of directly or closely related job-grading standards. All actions taken under these authorities, including the assignment of pay and the administration of basic, differential, and premium pays, shall conform to the policies and procedures contained in this Manual, applicable laws, and DoD Directives and Instructions, and shall be consistent with fair employment practices and equal opportunity for both applicants and employees.

C1.3. DEFINITIONS

The following definitions apply except where they may conflict with public law:

C1.3.1. Appropriated Fund Employee. A person paid from funds appropriated by the Congress of the United States.

C1.3.2. Nonappropriated Fund Instrumentality (NAFI) Employee. A person employed by a Nonappropriated Fund Instrumentality and compensated from nonappropriated funds.

C1.3.3. Concessionaire. An entrepreneur placed under contract to an authorized

Nonappropriated Fund Instrumentality for the purpose of providing goods and/or services.

C1.3.4. Private Organization. A generally self-sustaining, non-Federal instrumentality, incorporated or not, and constituted or established and operated on a DoD installation with the written consent of the installation commander or higher authority, by individuals acting exclusively outside the scope of any official capacity as officers, employees, or agents of the Government.

C1.3.5. DoD Components. The Office of the Secretary of Defense, the Military Departments, the Defense Agencies, and the Army and Air Force Exchange Service. (See DoD Instruction 1401.1 for special interpretation of DoD Components as it applies to this Manual.)

C1.3.6. Local National NAFI Employee. A national or citizen of a host country who is employed in that country by or for a NAFI.

C1.3.7. Third (Other) Country National NAFI Employee. A citizen or national of a country other than the United States or the host country who is employed by a NAFI.

C1.3.8. Foreign Areas. Areas (including the Republic of Palau (Belau), Federated States of Micronesia, and the Republic of the Marshall Islands, all formerly the Trust Territory of the Pacific Islands) situated outside the United States, the Commonwealth of Puerto Rico, the Panama Area and the possessions of the United States (including the Commonwealth of the Northern Mariana Islands, a United States Territory).

C1.3.9. Host Country. A foreign country where U.S. Forces are stationed.

C1.3.10. Host Government. The political authority of the foreign country where U.S. Forces are stationed under provisions of a treaty and/or agreement.

C1.3.11. Resident Aliens. People who are foreign born residing in the host country and who have not become naturalized citizens.

C1.3.12. Non-U.S. Citizens. A person who is not a citizen of the United States.

C1.3.13. U.S. National. A person born:

C1.3.13.1. In an outlying possession of the United States on or after the date of formal acquisition of that possession;

C1.3.13.2. Of parents who are U.S. nationals, in an outlying possession of the United States; or

C1.3.13.3. Of unknown parents in an outlying possession of the United States.

C1.3.14. Indirect Hire System. A system that provides that the host country assumes the responsibility of ensuring that the needs of the U.S. Forces for local national personnel are met and that the host country is in fact the official employer of such personnel.

C1.3.15. Local Prevailing Rates. Rates, determined by wage surveys, paid to local national personnel employed in retail, wholesale, service, and recreation establishments for comparable jobs.

C1.3.16. Nonappropriated Fund Instrumentality (NAFI). An integral DoD organizational entity through which (a) an essential Government function is performed, and (b) other DoD organizations are provided or assisted in providing morale, welfare, and recreational programs. The NAFI is established and maintained individually or jointly by the Heads of the DoD Components.

C1.3.16.1. As a fiscal entity, the NAFI maintains custody of and control over its nonappropriated funds, and is also responsible for the prudent administration, safeguarding, preservation, and maintenance of those appropriated fund resources made available to carry out its function.

C1.3.16.2. The NAFI contributes to the morale, welfare, and recreational programs of other organizational entities when so authorized, is not incorporated under the laws of any State or the District of Columbia, and enjoys the legal status of an instrumentality of the United States.

C1.3.17. Nonappropriated Funds (NAFs). Consist of cash and other assets received by NAF instrumentalities from sources other than monies appropriated by the Congress of the United States. NAFs are Government funds and are used for the collective benefit of military personnel, their dependents, and authorized civilians who generated them. These funds are separate and apart from funds that are recorded in the books of the Treasurer of the United States.

C1.4. LEGAL STATUS OF CIVILIAN EMPLOYEES OF NAFIs

C1.4.1. NAFI employees are Federal employees within the Department of Defense.

C1.4.2. Section 2105(c)¹ of Title 5, U.S.C., provides that:

"An employee paid from nonappropriated funds of the Army and Air Force Exchange Service, Army and Air Force Motion Picture Service, Navy Ship's Stores Ashore, Navy exchanges, Marine Corps exchanges, Coast Guard exchanges, and other instrumentalities of the United States under the jurisdiction of the Armed Forces conducted for the comfort, pleasure, contentment, and mental and physical improvement of personnel of the Armed Forces is deemed not an employee for the purpose of

(1) Laws (other than subchapter IV of chapter 53² and sections 5550³ and 7204⁴ of this title) administered by the Office of Personnel Management; or

(2) Subchapter I of chapter 81⁵ and section 7902⁶ of this title. This subsection does not affect the status of these nonappropriated fund activities as Federal instrumentalities.

C1.4.3. Subchapter IV of chapter 53 of Title 5, United States Code, (as amended by P. L. 92-392) provides for a pay system under which the rates of pay of prevailing-rate employees are fixed, and adjusted from time to time as nearly as is consistent with the public interest in accordance with prevailing rates.

¹ Definition of employee.

² Prevailing rate pay systems.

³ NAF employee pay for Sunday and overtime work.

⁴ Certain areas of equal employment opportunity.

⁵ Compensation for work injuries.

⁶ Safety programs.

C1.4.4. The acts quoted above removed NAFI employees from the provisions of laws or regulations administered by the U.S. Office of Personnel Management (OPM), except Equal Employment Opportunity (EEO) and wage fixing for prevailing-rate employees covered under the provisions of P. L. 92-392 and except for application of the Fair Labor Standards Act (as amended by P. L. 93-259).

C1.4.5. NAFI personnel policy is governed or guided by DoD Directives, Instructions, Manuals, executive orders, public laws, OPM issuances, DoD Circulars, and other regulations. Documents pertaining to this Manual are listed (the list may not be complete) in the References Section.

C1.5. NEW OR REVISED PROGRAMS

C1.5.1. The provisions of this Manual shall not be construed as limiting NAFIs in the continuance, development, implementation, and administration of personnel policies deemed appropriate to the establishment and maintenance of sound, progressive career development and management programs. However, such programs must meet the basic objectives of DoD policy set forth in this Chapter.

C1.5.2. New programs or revisions to existing programs that increase the levels of NAFI employee compensatory benefits and allowances so that they exceed those authorized in this Manual will be subject to approval, prior to implementation, by the ASD(FM&P) upon recommendation of the appropriate Head of the requesting DoD Component.

C1.5.3. DoD Components are encouraged to carry out research and demonstration projects that test new approaches to personnel management. Such projects require prior approval of the DoD NAF Personnel Policy Office and consultation with employees or consultation and negotiation with unions when negotiated agreements exist. The DoD NAF Personnel Policy Office may waive personnel policies in the conduct of projects, provided such waivers do not violate laws, rules, or regulations relating to political activities or equal employment opportunity; leave, insurance, or annuity provisions; merit system principles; or prohibited personnel practices.

C1.6. IMPLEMENTATION

The Heads of DoD Components or designee shall forward a copy of all implementing

documents to the DASD(CPP) within 120 days of the effective date of this Manual or subsequent changes. All Component regulations and documents (including group insurance and retirement plan summaries and employee booklets) that serve to satisfy the requirements of DoD 1401.1-M and applicable laws, etc., shall be provided. The DASD(CPP) is responsible for reviewing such regulations and documents in accordance with DoD 1401.1-M, Chapter 1, paragraph C1.2.2.2.

C2. CHAPTER 2

EMPLOYMENT AND PLACEMENT

[This information is now published in DoD 1400.25-M, "Civilian Personnel Manual,"
Subchapter 1403]

C3. CHAPTER 3

POSITION CLASSIFICATION, PAY, AND ALLOWANCES

[This information is now published in DoD 1400.25-M, "Civilian Personnel Manual,"
Subchapter 1405]

C4. CHAPTER 4

ATTENDANCE AND LEAVE

C4.1. DEFINITIONS

C4.1.1. Absence Without Leave (AWOL). Absence from duty that has not been authorized or approved by the appropriate authority in accordance with the provisions of this Manual.

C4.1.2. Accrued Annual Leave. Leave earned that is credited to an employee's account during the current leave year.

C4.1.3. Accumulated Annual Leave. Unused annual leave remaining to the credit of an employee at the end of any pay period.

C4.1.4. Accrued Sick Leave. Leave accrued and credited to an employee's account during the current leave year.

C4.1.5. Accumulated Sick Leave. Unused sick leave remaining to the credit of the employee at the end of any pay period.

C4.1.6. Break-in-Service. A separation from the rolls for a period of one or more workdays of the employee's basic workweek. A period of absence for military duty, followed by the exercise of reemployment rights, is not regarded as a break-in-service for purposes of this Manual.

C4.1.7. Continuous Service. The total period of time from the date of appointment until the date of separation, irrespective of pay status during such period.

C4.1.8. Court Leave. The authorized absence of an employee from work status for jury duty or to appear as a witness in an unofficial capacity for purposes delineated in paragraph C4.2.2.6.1. of this Chapter.

C4.1.9. Administrative Leave. The administratively authorized absence from duty without loss of pay and without charge to earned leave.

C4.1.10. Home Leave. Leave authorized by administrative adoption of section 6304(a) title 5, United States Code, and earned by service abroad for use in the United

States, in the Commonwealth of Puerto Rico, or in the territories or possessions of the United States (also, see Chapter 7, C7.2.10.).

C4.1.11. Military Leave. Absence from duties without loss of pay, time, or performance ratings for those NAFI employees who are members of Reserve components of the U.S. Armed Forces, including the National Guard, on days in which they are engaged in temporary active duty or inactive duty for training.

C4.1.12. Leave Year. The 52-week period prescribed by the Head of the Component for administration of leave.

C4.1.13. Leave Without Pay (LWOP). Approved temporary nonpay status and absence from duty.

C4.1.14. Military Furlough. A leave of absence or separation of a regular full-time or regular part-time employee for induction or recall to active duty in one of the U.S. Military Services.

C4.1.15. Compensatory Overtime for Religious Purposes. An overtime period an employee elects to work for the purpose of taking an equal amount of time off instead of overtime pay and without charge to leave for religious observance.

C4.2. POLICY

In order to establish uniform and equitable work schedules, hours, and working conditions essential to the health and welfare of NAFI employees and to conform to applicable executive orders and DoD issuances, the policies set forth herein will apply to all DoD Components.

C4.2.1. Attendance

C4.2.1.1. Administrative Workweek. The administrative workweek for NAFI employees will be a period of 7 consecutive calendar days. It need not coincide with the calendar week, but may begin on any day and at any hour of the day.

C4.2.1.2. Basic Workweek. Within the administrative workweek the basic workweek for NAFI employees will not exceed 40 hours, exclusive of meal times. Whenever possible, 2 consecutive days off will be provided in each administrative workweek. However, the basic workweek may be scheduled over a period of 6 days provided the total scheduled hours do not exceed 40 per week.

C4.2.1.3. Workday. The workday shall be administratively scheduled, shall not exceed 10 hours and may extend over 2 calendar days.

C4.2.1.4. Meal Periods. Regular meal or lunch periods normally will be established at no less than 30 minutes nor in excess of 1 hour and will not be considered as time worked except that meal periods will be considered time worked for the purpose of determining entitlement to night shift differential pay. No employee will be required to work more than 6 consecutive hours without a meal period.

C4.2.1.5. Legal Holidays. Legal holidays include the 1st of January, the 3rd Monday of January, the 3rd Monday of February, the last Monday of May, the 4th day of July, the 1st Monday of September, the 2nd Monday of October, the 11th day of November, the 4th Thursday of November, the 25th of December, Inauguration Day (only for employees working in the Washington DC, Metropolitan area as explained in the rules for appropriated fund employees), or any other calendar day designated as a holiday by Federal statute or executive order.

C4.2.1.6. Religious Observance. An employee may elect to work compensatory overtime for the purpose of taking time off without charge to leave when personal religious belief requires that the employee abstain from working during certain periods of the workday or workweek.

C4.2.1.6.1. An employee who elects to work compensatory overtime for this purpose shall be granted, instead of overtime pay, an amount of time off from his or her scheduled work (hour for hour) equal to the compensatory overtime worked.

C4.2.1.6.2. An employee's election to work compensatory overtime or to take compensatory time off to meet his or her religious obligations may be disapproved if such modifications in work schedules interfere with the efficient accomplishment of the assigned mission.

C4.2.1.7. Flexible and Compressed Work Schedules. The Heads of DoD Components may authorize flexible and compressed work schedules. Procedures established shall be in accordance with P. L. 99-196, December 23, 1985.

C4.2.2. Leave

C4.2.2.1. Leave Sharing or Donation. The Heads of Components may establish a program that permits employees to donate annual and sick leave for the use

of other employees for medical or family emergency or other hardship situations. It is suggested that the OPM programs for civil service employees be used as a guideline.

C4.2.2.2. Annual

C4.2.2.2.1. Leave Authorization. The appropriate authority shall authorize and schedule annual leave when the workload permits and, whenever possible, at the convenience of the employee. Such leave shall be earned by incumbents who are designated as regular employees (including those off-duty military personnel classified in the latter category). The amount of annual leave earned depends on the employee's total length of creditable service.

C4.2.2.2.2. Creditable Service. Total creditable service shall be determined as follows:

C4.2.2.2.2.1. All prior DoD NAFI service, including service with current employer, as a regular employee.

C4.2.2.2.2.2. All active uniformed service, except for certain retired members of the Uniformed Services as outlined below, terminated by honorable discharge under honorable conditions or by transfer to inactive Reserves under honorable conditions is creditable for determining the annual leave accrual rate. For an employee who is a retired member of any of the Uniformed Services, credit is restricted to the actual active service in the Armed Forces during wartime or in any campaign or expedition for which a campaign badge has been authorized. If the retired member meets one or more of the following conditions, all of his or her active service is counted for leave accrual purposes:

C4.2.2.2.2.2.1. The retirement was based on disability resulting from injury or disease received in the line of duty as a direct result of armed conflict.

C4.2.2.2.2.2.2. The retirement was based on disability caused by an instrumentality of war and incurred in the line of duty during a period of war (as defined in sections 101 and 301 of title 38, United States Code).

C4.2.2.2.2.2.3. On November 30, 1964, the retired member was employed in a civilian office to which the annual and sick leave law applied, and continues to be employed in an office of this kind without a break in service of more than 30 days.

(Note: The above provisions, set forth in subparagraphs C4.2.2.2.2.1.,

C4.2.2.2.2.2., and C4.2.2.2.2.3., are effective as of February 16, 1983. The leave accrual rate shall be adjusted as of this date. Recomputation of leave for employment periods before February 16, 1983 is not authorized.)

C4.2.2.2.2.3. Fractional parts of months shall be included in determining length of service. However, the total length of service shall be stated in terms of complete months.

C4.2.2.2.2.4. Credit for Military Training. Civilian employees of NAFIs who are called to active duty for short periods of time (not to exceed 6 weeks) with Reserve components of the U.S. Armed Forces shall continue to accrue annual leave credit during such periods. Nonduty time while in Reserve components is not creditable.

C4.2.2.2.3. Exemptions. No employee who is currently in a leave category as a result of more liberal provisions of the separate DoD Components before 6 September 1974 shall be penalized by being placed in a lower category for leave accrual or accumulation purposes.

C4.2.2.2.4. Annual Leave Accrual. Annual leave shall be accrued by regular employees while in a pay status, excluding overtime hours worked in excess of 40 hours during the basic workweek. Employees receiving benefits under the Longshoremen's and Harbor Worker's Compensation Act and carried on the rolls of the employing NAFI in a leave-without-pay status do not accrue annual leave.

C4.2.2.2.4.1. Employees with less than 3 years of service shall accrue 5 percent of the total hours in the basic workweek.

C4.2.2.2.4.2. Employees with 3 years but less than 15 years of service shall accrue 7.5 percent of the total hours in the basic workweek, except for the final biweekly period of the leave year when leave shall accrue at the rate of 12.5 percent of the total hours in the basic workweek.

C4.2.2.2.4.3. Employees with more than 15 years of service shall accrue 10 percent of the total hours in the basic workweek.

C4.2.2.2.5. Time of Crediting. The accrued leave is credited to the employee's individual leave record upon completion of the 90-calendar-day qualifying period; thereafter, at the end of the period in which it is earned.

C4.2.2.2.6. Changes in Rates of Accrual

C4.2.2.2.6.1. Changes in the rates of accrual are effective at the beginning of the first pay period following the completion of the prescribed service.

C4.2.2.2.6.2. When a change from a 7.5 percent to a 10 percent leave category occurs at the beginning of the last full biweekly pay period in the calendar year, the employee's leave credit for that period shall be computed at 12.5 percent of hours in a pay status.

C4.2.2.2.7. Commission or Incentive-Paid Employees. Commission or incentive-paid employees are covered by the same annual leave policy that applies to regular employees. However, the computation of the annual leave pay to such employees shall be on the basis of hourly pay rate equivalents derived from the application of classification standards to the job. The employee's wage rate step of the currently authorized wage schedule for the appropriate job grade shall be used in determining the base rate for computing the earned annual pay.

C4.2.2.3. Sick Leave

C4.2.2.3.1. Eligibility. Sick leave shall be credited to incumbents who are designated as regular employees (including those off-duty military personnel classified in this latter category). There is no qualifying period for the crediting of sick leave.

C4.2.2.3.2. Granting Sick Leave. All regular employees who have sick leave to their credit may be granted such leave for legitimate medical reasons.

C4.2.2.3.3. Sick Leave Credit Accruals

C4.2.2.3.3.1. Sick leave credits shall accrue at the rate of 5 percent of the total basic workweek hours in a pay status and shall be credited from the date of appointment to regular status.

C4.2.2.3.3.2. Sick leave credits including those accrued while on annual or sick leave, are credited to the employee's account at the end of the pay period in which accrued.

C4.2.2.3.4. Commission or Incentive-Paid Employees. Commission or incentive-paid employees are covered by the same sick leave policy that applies to regular employees. However, the computation of the sick leave benefits to such employees shall be on the basis of hourly pay rate equivalents derived from the

application of classification standards to the job. The employee's wage rate step of the currently authorized wage schedule for the appropriate job grade shall be used in determining the base rate for computing the sick leave benefits.

C4.2.2.3.5. Accumulation of Sick Leave. There is no limit on the amount of sick leave that employees may accumulate and carry forward from one year to another. No payment for unused sick leave shall be made to an employee under any circumstances.

C4.2.2.3.6. Sick Leave Credits. Sick leave credits shall be transferred between NAFIs provided that the employee (a) did not retire from the losing NAFI, (b) is placed in a regular pay status in the gaining NAFI within 180 calendar days (or longer if Head of Component deems it appropriate) of removal from pay status in the losing NAFI, and (c) did not receive service credit for unused sick leave in accordance with subsection A2.1.1. of Appendix 2.

C4.2.2.3.7. On-the-Job Injury. An employee covered by workers' compensation insurance (5 U.S.C. 8171) shall be granted sick leave payments from the employee's accumulated sick leave balance in an amount that, when added to workers' compensation benefits, approximates but does not exceed the employee's basic salary.

C4.2.2.4. Excused Absence. The Heads of DoD Components or, designees, may authorize time off with pay to any NAFI employee.

C4.2.2.5. Absence for Maternity or Paternity Reasons

C4.2.2.5.1. Leave for Maternity Reasons. Regular employees may request sick leave, annual leave, and/or leave without pay when incapacitation related to pregnancy and confinement has been properly established by medical authority. An absence covering pregnancy and confinement shall be treated as any other medically certified temporary incapacitation.

C4.2.2.5.2. Leave for Paternity Reasons. Regular male employees may request annual leave and/or leave without pay for purposes of assisting or caring for their children or the mother of the newborn child while she is incapacitated, as established by medical authority, for maternity reasons.

C4.2.2.5.3. The Heads of DoD Components shall apply the same leave policies, regulations, and procedures in cases of requests for maternity or paternity absences as are applicable to requests for leave generally.

C4.2.2.6. Military Leave

C4.2.2.6.1. Regular full-time civilian employees who are members of Reserve components of the Armed Forces of the United States, including the National Guard, are entitled to excused absence up to a maximum of 15 days per fiscal year without loss of pay, time, or performance rating when called to active duty or active duty for training. Any part of this excused absence that is not used in any given fiscal year accumulates for use in succeeding fiscal years, not to exceed a 15-day maximum carry-over. Therefore, an eligible employee could have a maximum total of 30 days to his/her credit for use during a fiscal year.

C4.2.2.6.2. In the case of regular civilian employees, who work less than full-time, the rate at which leave accrues shall be a percentage of the rate prescribed under subparagraph C4.2.2.5.1., above. The percentage shall be determined by dividing the number of hours in the employee's regularly scheduled workweek by the total number of hours that constitutes the normal full-time workweek of the employing NAFI.

C4.2.2.6.3. Regular civilian employees who are called to active duty for the purpose of providing military aid to enforce the law may be granted additional military leave not to exceed 22 workdays in a calendar year. These employees shall be granted leave upon presentation of competent orders. Compensation (other than a travel, transportation, or per diem allowance) received by an employee for such military services shall be credited against the pay payable to an employee with respect to his or her NAFI position for such period of military service. Military leave is to be granted only for workdays; the NAFI civilian pay of the employee shall be reduced only by the amount received or military service performed on a workday. The NAFI civilian pay shall not be reduced by any amount an individual may receive for days that are not workdays.

C4.2.2.6.4. Leave without pay may be granted employees for the following other types of military service:

C4.2.2.6.4.1. Summer training as members of Reserve Officers Training Corps.

C4.2.2.6.4.2. Temporary Coast Guard Reserve duty.

C4.2.2.6.4.3. Participation in parades by members of the State National Guard. (However, members of the National Guard in the District of Columbia are entitled to military leave with pay for participation in parades.)

C4.2.2.6.4.4. Training with a State Guard or other State military organization.

C4.2.2.6.4.5. Civil Air Patrol duty.

C4.2.2.7. Court Leave

C4.2.2.7.1. Upon advance submission of a court order, subpoena, summons, or any other judicial notification, regular employees shall be granted paid court leave for jury duty; to appear in court in an unofficial capacity as a witness on behalf of the U.S. Government or the Government of the District of Columbia; and to appear in court in an unofficial capacity as a witness on behalf of private parties where the United States, the District of Columbia, or a State or local government is a party to the proceedings. The court may be a Federal, District of Columbia, State, or local governmental-unit court. This provision does not apply to an employee appearing as a witness in a judicial proceeding that involves only private parties.

C4.2.2.7.2. Regular employees on court leave shall receive their regular pay for such time or shall retain the court fees received from the court, whichever is the greater amount. If the court fees are the lesser amount, such fees, exclusive of transportation when separately identified or otherwise identifiable, shall be turned over to the employing NAFI. However, when a State statute provides for reimbursement of expense or an expense allowance rather than a jury fee, employees shall receive their regular pay and the money paid by the court.

C4.2.2.8. Leave Without Pay. Leave without pay may be granted an employee who is receiving benefits under the Longshoremen's and Harbor Worker's Compensation Act (Chapter IV, subparagraphs B.2.a.(4) and B.2.b.(7)) and a regular full-time or regular part-time employee for military service (Chapter IV, paragraph B.2.e.). Upon request, such leave may be granted instead of annual or sick leave. Such leave may not be granted for a period exceeding 1 year except for military service and other circumstances considered appropriate by the Head of the DoD Component or designee.

C4.2.2.9. Military Furlough. Military furlough shall be granted to a regular employee for induction or recall to active duty in one of the U.S. Military Services. An employee returned to duty from military furlough shall have the same seniority, status, pay, and annual leave accrual entitlements that the employee would have enjoyed had he or she remained at work instead of being placed on furlough.

C5. CHAPTER 5

PERSONNEL RELATIONS AND SERVICES

C5.1. EMPLOYEE-MANAGEMENT RELATIONS POLICY

In conformance with the provisions of DoD Directives 1426.1 and 1400.5, the Heads of DoD Components in their management of NAFI personnel shall recognize and strive toward the establishment of orderly and constructive relationships between managerial and nonmanagerial personnel. Continued and unimpeded communications are vital factors to an informed and productive workforce. These extend to a thorough understanding of conditions of employment, job requirements, employee rights, privileges, and responsibilities of both management and employees.

C5.1.1. Standards of Conduct. The nature of many of the activities supported by nonappropriated funds administered by the DoD Components is such that the civilian employees and assigned military personnel shall exemplify the highest standards of personal conduct and integrity. The provisions of DoD Directive 5500.7 are applicable to NAFI employees. The Heads of DoD Components shall ensure that their NAFI employees are fully acquainted with all aspects of the Government's standards for ethical conduct.

C5.1.2. Loyalty. The Heads of DoD Components shall ensure that no person will be employed or continue to be employed at a NAFI who:

C5.1.2.1. Advocates the overthrow of the U.S. Government.

C5.1.2.2. Is a member of an organization that advocates the overthrow of the U.S. Government.

C5.1.2.3. Participates in any strike against the Government, including all instrumentalities of the Government.

C5.1.3. Political Activity

C5.1.3.1. The principles of 5 U.S.C. 7324 relating to political activity of Government employees are hereby administratively extended to NAFI employees to the extent that no employee shall:

C5.1.3.1.1. Use official authority or influence for the purpose of interfering with an election or affecting its results.

C5.1.3.1.2. Take any active part in a partisan political campaign.

C5.1.3.2. NAFI employees retain the right to vote as they choose; express their opinions on all political subjects and candidates; and participate in nonpartisan political activity. Also, an employee may hold a State, territorial, and local office if it does not conflict with duties, laws, or executive orders. No inquiries shall be made concerning the political affiliation of an employee or applicant for employment, and any disclosures of political affiliation shall not be considered in the employment process of the employee or applicant for employment.

C5.1.3.3. Determinations as to violations of the above policy will be made by the Head of the DoD Component in which such violations are alleged to have occurred.

C5.1.4. Business-Based Actions

C5.1.4.1. Definition. A business-based action (BBA) is a reduction in employment category or pay rate, a furlough of 8 calendar days or more, or separation action initiated by management for non-disciplinary reasons. A BBA is used to adjust resources in response to changes in business revenue, budget, workload, organization, or mission. It is not used to address a performance or conduct deficiency. Employees are affected by BBAs only if so identified after an objective, fair and equitable ranking against other employees in the same employment category and group of affected positions.

C5.1.4.2. Coverage. The following provisions cover Regular employees and those Flexible employees who have been on the rolls of the NAF activity affecting the BBA for 3 continuous years (except Flexible employees are not covered where they are furloughed, nor do they have a right to the third stage of the appeal process, i.e., appeal above the base level). Excluded from coverage are employees currently serving probationary periods (non-supervisory), employees with less than satisfactory performance ratings, and Flexible employees who have been on the rolls of the NAF activity affecting the BBA less than 3 continuous years. The following provisions are not applicable where they conflict with negotiated procedures under collective bargaining agreements.

C5.1.4.3. Types of Business Based Actions

C5.1.4.3.1. Reduction in pay rate. Such actions could result from reorganization, realignment of workload, elimination of duties or responsibilities from a position, lack of funds, or from a need to be competitive with pay in other organizations or the local labor market.

C5.1.4.3.2. Furlough of a Regular employee (Flexible employees are excluded) for 8 calendar days or more (temporary layoff for a definite or indefinite period of time).

C5.1.4.3.3. Change in employment category.

C5.1.4.3.4. Separation.

C5.1.4.4. Factors to Consider Before Resorting to BBA. Careful planning is necessary to lessen adverse effects, prepare employees, and to avoid administrative and morale problems. It is important to consider whether the cause of the reduction or realignment is a temporary or permanent situation along with each of the various actions that may be taken. For example, a reduction in hours of work, a reduction in pay rate, or a furlough may be more appropriate than separation.

C5.1.4.5. Business Based Action Procedures

C5.1.4.5.1. Determining Affected Employees

C5.1.4.5.1.1. Covered employees must be ranked to determine the order in which they will be affected (unless all employees will be equally affected--separation due to base closure, for example). The ranking process must include performance and seniority. Performance may be the primary criterion. The performance factor must include at least the employee's last two performance ratings. If there is only one rating, then it must be used. If there is no rating, then a rating must be issued and used.

C5.1.4.5.1.2. The determination of the order in which employees were adversely affected, the process used to determine the order, and copies of the written notices shall be maintained in a separate BBA file apart from the employee's official personnel folder. Subject to the provisions of the Privacy Act of 1974, the BBA file shall be made available for review upon request only by an affected employee or by those whose official duties require access.

C5.1.4.5.2. Effective Date and Requirement for Extended Employment. In some individual cases, the Chapter VIII requirement for extended employment for retirement and health insurance eligibility will affect the determination of the effective date of separation.

C5.1.4.5.3. Advance Notice. The minimum advance notice period for covered Regular employees is 7 calendar days for a non-separation action and 30 calendar days for separation. For covered Flexible employees, the minimum advance notice period is 24 hours for non-separation action and 7 calendar days for separation. Under emergency conditions (e.g., breakdown of equipment or other emergency conditions requiring suspension of operations, or an unanticipated reduction in business such as occurs with a sudden deployment of troops) a minimum of 24 hours notice may be given. The notice shall contain:

C5.1.4.5.3.1. The employee's position title, series, grade or payband level, and rate of pay.

C5.1.4.5.3.2. A description of the BBA and reason for it.

C5.1.4.5.3.3. Advice on severance pay entitlement, if applicable.

C5.1.4.5.3.4. Advice on loss of benefits, if applicable.

C5.1.4.5.3.5. If the action is separation:

C5.1.4.5.3.5.1. A statement that the action taken is non-disciplinary and does not preclude re-employment.

C5.1.4.5.3.5.2. Information on the reemployment priority list (RPL).

C5.1.4.5.3.5.3. Information on eligibility for Civil Service positions for 1 year from date of separation, under the terms of the DoD/OPM Interchange Agreement.

C5.1.4.5.3.5.4. Information on unemployment compensation.

C5.1.4.5.3.5.5. Information on other benefits described in Chapter 8, as applicable.

C5.1.4.5.3.6. An explanation of the employee's right to appeal, including how and where to appeal and the time limits.

C5.1.4.5.4. Appeals of Business Based Actions

C5.1.4.5.4.1. General. Covered employees have a right to appeal in accordance with the following provisions, within 7 calendar days after the effective date of the BBA, if they believe BBA regulations and procedures were not properly applied. Management decisions regarding the budget, workload, organization and mission are reserved to management and are not appealable. If an employee alleges that the action resulted from an act of discrimination, the action may only be contested through the discrimination complaint procedure. A decision in favor of an employee entails the requirement that the employee be "made whole." This includes pay and restoration to duty including employment rights and benefits, as applicable. If, however, it is clear the same action would have been taken against the employee even if the regulatory or procedural error had not been made, then there is no "made whole" provision.

C5.1.4.5.4.2. Representation. An employee may be accompanied, represented, and advised by a representative of his or her own choosing, provided the person is willing and free to do so. The employee shall designate his or her representative in writing and provide the designation to the first stage deciding official. The representative's service must not result in a conflict of interest as determined by the installation commander. All costs for the representative shall be borne by the employee.

C5.1.4.5.4.3. Use of Official Time. The employee and his or her designated representative may use reasonable amounts of official duty time subject to supervisory determination as to when such time may be used in light of priority needs of the NAFI. Such time may be used to prepare and present appeals.

C5.1.4.5.5. Business Based Action Appeals Procedure

C5.1.4.5.5.1. First Stage. The employee and his or her representative shall, not later than 7 calendar days after the effective date of the BBA, present an written appeal to the lowest level of management that can grant relief. Every effort shall be made to resolve the matter promptly and fairly at this stage. A written decision shall be provided to the employee within 7 calendar days of receipt of the appeal. It shall summarize the issue, the consideration given, and advise the

employee of the right to seek relief at the next stage within 7 calendar days from the date of receipt of the decision, if he or she is not satisfied.

C5.1.4.5.5.2. Second Stage. A written appeal shall be submitted to an official, designated by management, in the chain of command above the official who considered the appeal at the first stage. Upon receipt of the appeal, the deciding official may designate a disinterested third party to review the facts and make a recommendation to the deciding official. A written decision shall be provided the employee within 45 calendar days of receipt of the appeal. The decision shall summarize the issue, the consideration given, and advise Regular employees of:

C5.1.4.5.5.2.1. The right to request a review of the written appeal record by a level above the installation commander or principal management official of the Army and Air Force Exchange Service (AAFES);

C5.1.4.5.5.2.2. How and where to file the request; and

C5.1.4.5.5.2.3. Time limits for filing. There is no further review or appeal above this level for covered Flexible employees.

C5.1.4.5.5.3. Third Stage (Applies to Regular employees only). The official above the installation commander, or the principal management official of AAFES, designated as the reviewer, shall make a decision based on the written record within 30 calendar days of receipt. NAF resources shall be used to accomplish BBA appellate review above the base level. Components may request exception to this NAF resource requirement. There is no further review or appeal above this level.

C5.1.4.5.6. Record of Appeal. A complete record of the appeal shall be maintained in the BBA file.

C5.1.5. Reemployment Priority Lists

C5.1.5.1. Each personnel office servicing a NAF activity that separates employees by BBA shall establish a Reemployment Priority List (RPL) to provide placement assistance to those separated by BBA. Separated employees shall have priority placement rights in the NAF activity from which separated and priority consideration rights at other NAF activities in the commuting area. They shall immediately be placed on the RPL and remain on the RPL until reemployed, but not longer than 1 year from the date of separation.

C5.1.5.2. NAF employees who were separated by BBA no more than 1 year

prior to the effective date of this RPL policy shall be added to the RPL. Placement or consideration is prospective from the time placed on the list. As an exception to the general rule, employees so added shall remain on the list until reemployed or until 1 year from the date they were added, whichever comes first.

C5.1.5.3. A person on the RPL shall be offered employment in a vacant position in the NAF activity from which he or she was separated if:

C5.1.5.3.1. Management is filling a vacancy by other than detail or position change (promotion, demotion, reassignment).

C5.1.5.3.2. The position is in the same or lower employment category as the position from which separated.

C5.1.5.3.3. The position is in the same or lower grade or pay level as the position from which separated.

C5.1.5.3.4. The position has substantially the same duties as the position from which separated.

C5.1.5.4. If the offer is declined, the person will be removed from the RPL and the next eligible person on the RPL will be offered the position, and so on until the RPL is exhausted.

C5.1.5.5. Rehiring an individual on the RPL is a noncompetitive recruitment action. Therefore, such individuals shall be rehired before those who receive preference in competitive recruitment actions.

C5.1.5.6. A person on the RPL must also be offered priority consideration for NAF jobs in other DoD NAF activities in the commuting area if:

C5.1.5.6.1. The NAF activity is filling the vacancy by other than detail or position change (promotion, demotion, reassignment);

C5.1.5.6.2. The vacancy is in the same or lower grade or pay level as the position from which the person on the RPL was separated;

C5.1.5.6.3. The vacancy is in the same or lower employment category as the position from which the person on the RPL was separated; and

C5.1.5.6.4. The vacancy has substantially the same duties as the position from which the person on the RPL was separated.

C5.1.5.7. DoD NAF activities shall exchange RPLs within the commuting area to affect the above requirements.

C5.1.5.6. An individual's name is removed from the RPL when he or she accepts an offer of a position in the same or higher employment category as the position from which separated in any DoD NAF activity. Declination of such an offer constitutes removal from the RPL.

C5.1.6. Employee Grievances

C5.1.6.1. NAFI employees shall have the right to present their complaints and grievances to management officials for prompt and equitable consideration. The Heads of DoD Components shall establish procedures for deciding grievances of employees in an equitable and timely manner.

C5.1.6.2. Where a labor organization has exclusive recognition, any negotiated grievance procedure shall be governed by 5 U.S.C. 7101 et seq., as implemented by DoD Directive 1426.1 and DoD 1400.25-M.

C5.1.6.3. The employee grievance procedure may be used to resolve employee disputes of business-based actions and disciplinary actions of suspension of 30 days or less.

C5.1.7. Disciplinary Actions

C5.1.7.1. A disciplinary action is a personnel action affecting a Regular employee that reduced the employee's basic pay or level; placed the employee in a nonpay, nonduty status; or separated the employee from employment; and was affected for cause, i.e., the disciplinary action stemmed directly from the actions of the affected employee.

C5.1.7.2. Disciplinary actions do not include:

C5.1.7.2.1. Business-based actions.

C5.1.7.2.2. Actions taken as the result of termination of temporary promotion.

C5.1.7.2.3. Separation or change to lower pay or level when voluntarily initiated by the employee.

C5.1.7.2.4. Application of a revised prevailing rate schedule when there is no change to the position.

C5.1.7.2.5. Actions taken as a result of an employee abandoning his or her position.

C5.1.7.3. Procedures for Processing Disciplinary Actions and Appeals. The Heads of DoD Components shall issue regulations and procedures for processing disciplinary actions and for handling employee appeals of disciplinary actions that result in reduction of pay or in separation. That appeals process shall include a final appellate decision above the level of Installation Commander or General Managers of the Army and Air Force Exchange Service.

C5.1.8. Performance Management Program. To improve individual and organizational performance and strengthen the link between pay and performance, achievement-focused performance management programs shall be established. Recognition of team achievement is encouraged. Programs may be tailored to fit the mission and culture of the organization, but they must include the following core requirements:

C5.1.8.1. An annual appraisal of whether performance met expectations, using at least two rating levels.

C5.1.8.2. A fair and consistent method for deriving a summary rating from performance. At a minimum, performance expectations consistent with duties must be discussed with the employee.

C5.1.8.3. Approval of the appraisal or rating at level above the rater where practicable, and retention of the appraisal in the employee's Official Personnel Folder for possible future use in reaching personnel decisions.

C5.1.8.4. Provision for determining actions to be taken when expectations are met or not met. Payband employees rated less than satisfactory, or equivalent, will not be granted a pay increase (does not apply to crafts and trades employees as their pay is based on the prevailing rate system rules). Appropriate limits and approval levels should be set for cash awards and pay adjustments. An employee may grieve the rating, but not the amount of the pay change.

C5.1.9. Incentive Awards and Recognition Programs. Recognizing that NAFI employees at all levels share responsibility for the efficient and economical operations of the activity in which they are employed, incentive awards programs shall be established to the extent feasible, and within resources available, for the purpose of improving these operations and recognizing deserving employees.

C5.1.10. Occupational Safety and Health. Components shall create and maintain a safe and healthful environment for their employees and for the users of facilities managed for the morale, welfare, and contentment of military personnel, their dependents, and authorized civilians. All safety and health regulations shall be strictly adhered to by NAFI employees in accordance with DoD Instruction 6055.1. Where safety technicians are not available within the installation, outside consultants shall be used as appropriate.

C5.1.11. Drug and Alcohol Abuse. Components shall ensure that drug and alcohol abuse control programs are available to NAFI employees in accordance with the provisions of DoD Directive 1010.4.

C5.2. LABOR-MANAGEMENT RELATIONS POLICY

The Federal Service Labor-Management Relations Statute, 5 U.S.C. 7101 et seq., is implemented within the Department of Defense by DoD Directive 1426.1 and DoD 1400.25-M. The statute, as implemented by these DoD issuances, applies to Nonappropriated Fund Instrumentalities (see 5 U.S.C. 7103 (a)(2) and (3) and DoD 1400.25-M, Chapter 711).

C5.3. ENTITLEMENT TO PERSONAL SERVICES AND GOVERNMENT QUARTERS

The privileges afforded NAFI employees shall be consistent with those available to appropriated fund employees. In addition, the personal use of the facilities of the NAFI in which an individual is employed may be authorized by local commanders when the use by regular eligible patrons is not diminished. The entitlement of 5 U.S.C. 5911, (Government Quarters and Facilities) as well as any other regulations prescribed by the President and deemed to be necessary and appropriate to carry out the provisions of this section, are hereby administratively extended to NAFI civilian personnel. The Heads of DoD Components shall prescribe the regulations necessary to carry out the provisions of 5 U.S.C. 5911. Except in isolated situations in which

the only suitable quarters and facilities available are Government-owned, NAFI employees will be expected to secure them from the private sector. Also, exceptions may be made when, in the judgment of the commander, the mission of the installation will be better accomplished by having certain key administrative NAFI personnel quartered on the installation. The occupation of Government quarters on a temporary basis by NAFI employees while traveling on official business is authorized.

C5.4. "WHISTLEBLOWER" PROTECTION FOR NAFI EMPLOYEES AND APPLICANTS DISCLOSING INFORMATION

C5.4.1. The DoD Components shall ensure that the confidentiality of employees and applicants making disclosures are protected fully. In accordance with 10 U.S.C. Chapter 81, NAFI employees and applicants for NAFI employment may not be impeded from disclosing information to appropriate authority that they reasonably believe evidences:

C5.4.1.1. A violation of any law, rule, or regulation; or

C5.4.1.2. Mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific damage to public health or safety.

C5.4.2. DoD Directive 7050.1, "Defense Hotline Program" May 20, 1987, establishes the DoD Hotline for reporting fraud or mismanagement, assigns responsibility and prescribes managing and operating procedures.

C5.4.3. Concerning protection against reprisals, DoD Directive 1401.3 provides policy and implements P. L. 98-94, DoD Authorization Act, 1984, section 1253 (10 U.S.C. 1587) that establishes protection against reprisals for certain NAFI civilian employees and applicants who have made protected disclosures. DoD Directive 1401.3 sets forth responsibilities and authorities for providing such protection and prescribes operating procedures.

C6. CHAPTER 6

RETIREMENT AND INSURANCE

C6.1. GENERAL POLICY

C6.1.1. The Heads of DoD Components shall ensure that their eligible NAFI employees are afforded the opportunity to participate in retirement and insurance programs meeting requirements established in this Chapter and in applicable laws, executive orders, rules, and regulations regardless of whether or not they are referenced in this Manual. These retirement and insurance requirements are designed to serve as minimum acceptable program levels. (See paragraph C6.2., below, for exception to minimum levels when providing benefits to other than RFT employees.)

C6.1.2. No new retirement or insurance plans or changes to existing plans shall exceed the benefits authorized by the Congress for civil service employees who are covered by U.S. Office of Personnel Management (OPM) rules and regulations concerning employee benefits. Retirement or insurance plans that were in effect on January 1, 1976, and that exceeded the benefits authorized by the Congress for such employees may continue with those benefits. Any and all restrictions on benefits applicable to civil service employees who are covered by U.S. Office of Personnel Management (OPM) rules and regulations concerning employee benefits will apply automatically to NAFI retirement and insurance plans initiated after the effective date of this Chapter (April 16, 1975), notwithstanding any other provisions of this Chapter.

C6.2. APPLICATION

Unless otherwise required by Federal statutes or specific provision in this Chapter, RFT employees of NAFIs who are U.S. citizens, U.S. nationals, or permanent resident aliens of the United States employed in the United States shall be offered, as a minimum, the programs described herein. The Heads of Components may offer the same or different benefit programs to other than RFT employees. In all cases, benefits offered to Federal civil service employees will serve as the ceiling or cap on NAFI provided benefit levels as described in C6.1.2., above.

C6.3. SPECIFIC POLICIES

A supplement to the specific policies cited herein is contained in Appendix 2. This supplement amplifies the policies and outlines procedures.

C6.3.1. Funding Principles and Fund Reviews

C6.3.1.1. Funding. A high degree of fiscal responsibility is essential. Accordingly, the Heads of DoD Components shall ensure that all retirement and insurance programs are funded in accordance with sound actuarial, insurance, and accounting principles that will ensure adequate protection of the interests of participants and beneficiaries.

C6.3.1.1.1. No appropriated funds will be requested or expended in connection with unemployment insurance, life insurance, medical, retirement, or survivor benefits established or authorized by this Manual. Appropriated funds replenishment or subsidy of nonappropriated funds applied to these purposes is similarly prohibited.

C6.3.1.1.2. Any contracts, formal agreements, and similar documents used in transactions with insurance carriers, financial or other organizations, unions or other employee organizations will contain a clear disclaimer relieving appropriated funds of the U.S. Government from any and all expressed or implied financial liability in connection with the retirement and insurance programs.

C6.3.1.2. Fund Reviews. The Head of each DoD Component shall ensure that each fund maintained in support of a retirement program is regularly reviewed by one or more qualified actuaries. P. L. 95-595 establishes uniform annual reporting requirements for Federal Government pension plans, including DoD NAFI retirement plans. The Heads of DoD Components shall ensure that administrators of NAFI retirement plans comply with the form, manner, and time of filing as required by the OMB, GAO, and the Department of the Treasury. Basically, compliance requires that various financial and actuarial statements be provided annually to OMB not later than 150 days after the last day of the plan year, and Congress not later than 210 days after the last day of the plan year. Information copies of the reports will be forwarded and questions directed to the DoD NAF Personnel Policy Office.

C6.3.1.3. Investment of NAF Retirement Program Funds and Trust Requirement

C6.3.1.3.1. All investment use of any retirement funds shall comply with

The Basic Fiduciary Rules and all restrictions pertaining to investment of retirement funds as stated in the Joint Explanatory Statement of the Committee of Conference on the Employee Retirement Income Security Act of 1974 (ERISA). (Note: The prohibited transactions restrictions on acquisition of employer securities should not be construed to restrict investment of Federal Government securities). In general, a fiduciary is any person who exercises discretionary authority or control over the management of a plan, or any authority or control over the management or disposition of plan assets; renders investment advice to a plan for a fee or other direct or indirect compensation, or has the authority or responsibility to do so; or has any discretionary authority or responsibility regarding plan administration, whether or not it is used. In the broadest sense, everyone in the chain of responsibility for NAFI retirement plans and their funds has a fiduciary responsibility for them. However, to identify individuals who can be held personally responsible (pecuniarily liable) for losses suffered by a plan or its beneficiaries, the concept of fiduciary responsibility takes on a much narrower application; and each Component's regulations shall identify the positions that fall into the category.

C6.3.1.3.2. Investments of retirement funds may be made but not limited to the following:

C6.3.1.3.2.1. Deposits or securities authorized by paragraph 10.2.2. (DoD Instruction 7000.12) that provide the necessary liquidity for the retirement plan.

C6.3.1.3.2.2. Instruments of the private sector such as common and preferred stocks, corporate and municipal bonds (generally minimum investment grade), options, and real estate.

C6.3.1.3.2.3. Fiduciaries shall diversify plan assets to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. It is not intended that a more stringent standard of prudence be established with the use of the term "clearly prudent." Instead, by using this term it is intended that in an action for plan losses based on breach of the diversification requirement, the plaintiff's initial burden shall be to demonstrate that there has been a failure to diversify. The defendant then is to have the burden of demonstrating that this failure to diversify was prudent. ERISA places these relative burdens on the parties in this matter, because the basic policy is to require diversification, and if diversification on its face does not exist, then the burden of justifying failure to follow general policy should be on the fiduciary who engages in this conduct. Ordinarily the fiduciary should not invest the whole or an unduly large portion of the property in one type of security or in various types of securities dependent upon the success of one enterprise or upon conditions in

one locality, since the effect is to increase the risk of large losses. The degree of investment concentration that would violate this requirement to diversify cannot be stated as a fixed percentage, because a prudent fiduciary must consider the facts and circumstances of each case. The factors to be considered include:

C6.3.1.3.2.3.1. The purpose of the plan.

C6.3.1.3.2.3.2. The amount of the plan's real assets.

C6.3.1.3.2.3.3. Financial and industrial conditions.

C6.3.1.3.2.3.4. The type of investment, whether mortgages, bonds, or shares of stock or otherwise.

C6.3.1.3.2.3.5. Distribution as a geographic location.

C6.3.1.3.2.3.6. Distribution among industries.

C6.3.1.3.2.3.7. The dates of maturity.

C6.3.1.3.2.4. Retirement plan assets including asset earnings must be held trust and legally separated from all other NAFI assets for the exclusive benefit of the plan participants and their beneficiaries.

C6.3.1.4. Investment Rate of Return Calculation Requirement. (Note: Refer to DoD Instruction 7000.12, "Financial Management of MWR Activities" for more information.)

C6.3.1.4.1. The retirement funds will compute a time-weighted rate of return each quarter using a plan year (which will usually be calendar year). A calendar year-to-date time-weighted rate of return, e.g., 1 January - 30 June) will be included if possible. However, an annual time weighted rate of return is required. Retirement funds are not required to submit data based on a fiscal year beginning 1 October. DoD Components will indicate the particular commercial firm used to compute internally the formula used.

C6.3.1.4.2. In addition to the requirements stated in paragraph 11.4. of DoD Instruction 7000.12, retirement funds will include the following actuarial assumptions in their quarterly summary of data: estimated rate of return, estimated salary increases, estimate of inflation, percent of payroll contributed by both employer and employee (include Social Security contributions if used to compute benefits). If a

change in any of these assumptions has occurred since the previous quarter, the changes should be noted and explained. The annual actuarial valuation (which is based on a plan year) will also include the present value of assets, benefits (both with and without salary increases), and the net value of the assets. If the net value of the assets is a negative number (i.e., an unfunded liability), then the estimated date when this negative net asset is eliminated will be included (e.g., 31 December 2000) as well as the percent of employer's payroll needed to eliminate this unfunded liability.

C6.3.1.4.3. All rates for return should be completed not later than 60 days after the end of a particular. The rates of return calculations will start with the first quarter beginning after this instruction has been officially approved. The initial year-to-date data will begin with the same beginning quarter. The initial year-to-date figures will be superseded when a normal year has begun. Each DoD Component will maintain the rates of return calculations for presentation at the annual DoD NAF Review of Investment Management as required by DoD Instruction 7000.12.

C6.3.2. Social Security. In accordance with 42 U.S.C. 410, NAFI employees (including off-duty military enlisted employees) are provided Social Security coverage.

C6.3.3. Retirement

C6.3.3.1. Retirement Coverage. The Heads of DoD Components shall provide retirement coverage which will be considered together with the benefits provided by the Federal Old Age Survivors and Disability Insurance Benefits, 42 U.S.C. 410 et seq.

C6.3.3.2. Credited Service. Credited NAFI employee service for retirement will include all NAFI service for which employee contributions, deposits, or redeposits were made.

C6.3.3.2.1. Where the Head of a DoD Component elects to recognize all or part of other previous periods of NAFI service within that Component, credit will be given on a retroactive basis as retroactive credits.

C6.3.3.2.2. Service in any position paid from appropriated funds, except for honorable active U.S. military service described in paragraph A2.1.2. of Appendix 2, is not creditable for NAFI retirement purposes. The basis on which total credited NAFI employee service will be determined is contained in Appendix 2.

C6.3.3.3. Retirement Eligibility

C6.3.3.3.1. An employee's normal retirement date is the 1st day of the month that falls on or follows the employee's 62nd birthday. However, the employee must have at least 5 years of credited service to qualify for an annuity including the employer's contribution.

C6.3.3.3.2. The Heads of DoD Components may allow employees to retire earlier on a reduced annuity basis after attaining age 52, and completing 5 years or more of credited service.

C6.3.3.4. Contributions. The Heads of DoD Components will determine the rate of employee contribution to the retirement program.

C6.3.3.5. Retention of Accrued Credited Service for Retirement Annuity Purposes. When an eligible employee who is participating in a retirement plan terminates employment and is employed by another NAFI within 90 days, and the gaining NAFI offers a different retirement plan, the employee may carry forward his or her credited service accrued for retirement annuity purposes with the prior NAFI. The feasibility of continuing this "portability" provision shall be reviewed periodically by the DoD NAF Retirement and Insurance Committee. When the DoD Component NAFI's retirement plan includes a provision for disability annuity, the employee shall fulfill the gaining NAFI's own credited service vesting requirements for disability annuity prior to becoming eligible for that annuity. Complete policy and procedures are stated in Appendix 2.

C6.3.4. Workers' Compensation Benefits

C6.3.4.1. Longshoremen's and Harbor Workers' Compensation Act. Civilian employees of NAFIs shall be provided compensation benefits in accordance with the provisions of 5 U.S.C. 8171. (Off-duty enlisted personnel employed by NAFIs are not civilian employees for the purposes of this Act.)

C6.3.4.2. Coordination with other Benefits. Retirement or disability annuities shall be offset by the amount of workmen's compensation indemnity benefits payable. Any workers' compensation income received by a survivor annuitant derived from "on-the-job" incurred disease or injury to the employee shall also be used as an offset against the survivor annuity payable under the retirement plan.

C6.3.5. Unemployment Benefits

C6.3.5.1. Basis for payment. Under authority of the Unemployment Compensation for Federal Civilian Employees (UCFE) law (5 U.S.C. Chapter 85 and 20 CFR 609), the Secretary of Labor, on behalf of the United States, has entered into agreements with all the United States, the District of Columbia, the Commonwealth of Puerto Rico, and the Virgin Islands. These agreements provide that benefits will be paid by a State to any unemployed Federal civilian employee whose wages have been assigned to that State in which the employee had his or her last official duty station, in the same amount and subject to the same conditions as if the Federal civilian service and wages had been included as employment and wages under the employment insurance law of the State involved.

C6.3.5.2. Charge to employing NAFI. The Heads of DoD Components should be aware that they have to absorb the cost of paying unemployment benefits to Federal civilian NAFI employees. Thus, it is very important that each NAFI become conscious of its responsibility to safeguard, through good management practices, NAFI funds by implementing procedures to reduce improper unemployment benefit payments. NAFI ability to provide State agencies with timely, accurate, and complete wage and separation information precludes adverse eligibility decisions from being made and avoids improper payment of benefits and charges to NAFI. The Heads of DoD Components may further curtail unwarranted payment of benefits by appealing State decisions to pay unemployment benefits to former employees whom the NAFI believes are not entitled to such payments. This is especially true in situations when former employees were removed for misconduct, resigned voluntarily, or refused a suitable job offer. Thus, the Heads of DoD Components should be aware that if an ineligible individual, including a retiree, receives improper payments, the former employer is charged for these costs, in addition to the costs charged to it for warranted payments. When additional or corrective information is provided to the States by NAFIs, redeterminations are made only when permitted under the appropriate State law.

C6.3.6. Group Insurance

C6.3.6.1. Coverage. Group insurance is designated to provide the broadest coverage against unforeseen events to NAFI employees and their dependents. Hence, the Heads of DoD Components shall assure that all their eligible NAFI employees have the opportunity to participate in group insurance plans meeting the requirements established in this Chapter.

C6.3.6.2. Voluntary Participation. Employee participation in group insurance shall be voluntary. NAFI employees who are eligible shall be permitted to elect not to be covered.

C6.3.6.3. Group Insurance Benefits

C6.3.6.3.1. The following group insurance benefits will be made available to all eligible employees:

C6.3.6.3.1.1. Life Insurance.

C6.3.6.3.1.2. Accidental Death and Dismemberment.

C6.3.6.3.1.3. Comprehensive Medical Expense.

C6.3.6.3.1.4. Life and Medical benefits for eligible retired employees.

C6.3.6.3.2. The basic provisions for each of these benefits are set forth in Appendix 2.

C6.3.6.4. Retention of Group Insurance Rights. When RFT DoD NAFI employees participating in a NAFI Group Insurance Plan are transferred by reason of a functional transfer, and the gaining NAFI offers a different group insurance plan, such employees are entitled to transfer of certain group insurance participating rights, subject to the provisions and limitations of the gaining NAFI plan. These rights are:

C6.3.6.4.1. Participation in those portions of the gaining NAFI plan that are counterparts of the losing NAFI plan in which the employees and his or her dependents were participating on the date immediately prior to the date of transfer. To exercise this right, however, the employee must file for similar coverage within 1 month of the date of transfer. In this event, coverage will become effective as of the date of transfer or, if later, as of the date the application for it is signed. To enroll in any counterpart portions of the gaining NAFI plan that the transferred employee or his or her dependents were not enrolled in the losing NAFI plan, insurability rules applicable to other employees of the gaining NAFI will apply.

C6.3.6.4.2. Credit for those periods of time the employee was a participant in those counterpart portions of the losing NAFI group insurance plan that establishes eligibility for retired employee life or medical, or both, coverage in the gaining NAFI plan.

C6.3.6.5. Funding. Costs for group insurance benefits will be shared between the employer and the employee. See Appendix 2. for policy concerning cost to eligible retired employees.

C6.3.7. Health Maintenance Organizations. In compliance with P. L. 97-35, which amended the Health Maintenance Organization (HMO) Act to include NAFIs within the definition of the term "employer," the Heads of DoD Components shall provide eligible NAF employees the option of membership in qualified HMOs. In compliance with 42 U.S.C. 300e-9, DoD Components must comply with regulations prescribed by the Secretary of the Department of Health and Human Services concerning employer obligations under the HMO Act.

C6.3.8. Coordination

C6.3.8.1. To affect coordination among the retirement and insurance programs of the various DoD Components and to achieve a degree of uniformity, the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) (DASD(CPP)) shall appoint a working committee composed of specialists in the NAFI insurance and retirement areas from the DoD Components. The working committee shall review and study all changes to the retirement and insurance provisions of this Manual that are under consideration and make its recommendations. This committee shall meet at the call of the DASD(CPP) to:

C6.3.8.1.1. Share information;

C6.3.8.1.2. Suggest target dates for implementation of certain aspects of the provisions of this Chapter;

C6.3.8.1.3. Review NAFI retirement and insurance programs of DoD Components;

C6.3.8.1.4. Recommend to the ASD(FM&P) any changes in DoD policy on NAFI employee retirement and insurance programs; and

C6.3.8.1.5. Recommend procedures for the transfer of NAFI retirement credits.

C6.3.8.2. The working committee chair will coordinate recommendations developed by this committee with the DoD NAF Personnel Policy Committee prior to forwarding such recommendations to the DASD(CPP).

C7. CHAPTER 7

EMPLOYMENT OF NAFI PERSONNEL IN OVERSEAS AND FOREIGN AREAS

C7.1. GENERAL POLICY AND PURPOSE

C7.1.1. The DoD policies and laws governing employment practices for NAFI personnel in the Continental United States (CONUS) basically apply overseas to U.S. citizens and U.S. nationals and are consistent with existing treaties or agreements with host countries. The employment conditions for locally hired non-U.S. citizen employees shall be based on customs and practices in the areas and the provisions of the country-to-country agreements. The NAFI personnel policies developed in any one area shall apply uniformly to all NAF elements of the U.S. Forces in the same area.

C7.1.2. DoD Directive 1400.6, DoD Instruction 1400.10, and DoD 1400.25-M, which prescribe the policies currently governing civilian personnel employed by DoD Components in CONUS and overseas, are hereby administratively extended to NAFI employees. This Chapter summarizes the essential elements contained in these issuances and makes interpretations for NAFI employees as needed.

C7.1.3. No Head of a DoD Component or organization of his or her command shall cause any actual or potential liability to appropriated funds by reason of employment of NAFI personnel or use by such employees of non-U.S. Government facilities in foreign areas except as authorized by DoD Directive 1015.6, or as otherwise specifically authorized by regulations and procedures approved by the Secretary of Defense or designee.

C7.1.4. Appropriated fund logistical or administrative support of NAFI employees in foreign areas shall be on a reimbursable basis except where exempted by the provisions of DoD Directive 1015.6 or otherwise specifically exempted.

C7.2. SPECIFIC POLICIES

C7.2.1. U.S. Citizens or U.S. Nationals Recruited Locally

C7.2.1.1. U.S. citizens and U.S. nationals residing in the host country may be recruited locally by oversea NAFIs in accordance with established country-to-country agreements. Except in those instances where placement must be made under the provisions of Chapter 2, paragraph C2.4., "Employment of Spouses of Military

Personnel," first priority must be given to the employment of dependents of military and civilian personnel assigned in the host country, without regard to other priorities in this Manual and to off-duty military personnel, when such actions are not at variance with the Status of Forces agreements, country-to-country agreements, treaties, or as prescribed by DoD Instruction 1400.23 when the host nation's political or economic conditions require maintenance of the existing local national or U.S. citizen employment balance. A DoD Component may require approval at an appropriate level when the position is at the UA-12 level and above, or is a supervisory position.

C7.2.1.2. Compensation of such employees shall be in accordance with FPM Supplement 532-2, and Appendices 1 and 4 of this Manual.

C7.2.2. U.S. Citizens Recruited in the United States

C7.2.2.1. When it has been determined that local nationals, U.S. citizens, or U.S. nationals residing in the host country do not possess the necessary training or experience for a particular NAFI position, civilian personnel may be recruited from the United States to fill these positions. In general, such personnel shall be limited to key management or supervisory positions and those positions regarded as essential for security reasons.

C7.2.2.2. Rates of pay for U.S. citizen NAFI employees who are compensated under the Annual Salary Plan and who are recruited in the United States and its territories and possessions for overseas assignments shall be fixed in conformity with rates paid for work of a comparable level, difficulty, and responsibility to that of NAFI employees in the United States.

C7.2.3. Employment of Non-U.S. Citizens. The employment of non-U.S. citizens by Armed Forces overseas is covered by DoD Instruction 1400.10. The Instruction supplements DoD Directive 1400.6, which is the basic DoD policy governing civilian personnel of the Department of Defense in overseas areas.

C7.2.3.1. Local Nationals. Local laws and customs shall be followed in the employment and administration of local nationals to the extent that such laws and customs are compatible with the basic management needs of the U.S. Forces.

C7.2.3.2. Third (Other) Country Nationals. The importation of workers from another country by a NAFI shall only be made when personnel requirements cannot be met by local hire. When it becomes necessary to do so, arrangements should be made with the host government to permit importation of workers who are acceptable to the host country.

C7.2.3.3. Resident Aliens. Resident aliens shall be employed in accordance with agreements made with the host country.

C7.2.4. Allowances and Differentials The payment of allowances and differentials to NAF employees shall comply with DoD 1400.25-M, "DoD Civilian Personnel Manual" (CPM) Chapter 592, "Overseas Allowances and Differentials." The delegation of authority restrictions provided in that Chapter apply to NAF. However, the Commander, AAFES, will be considered a Head of Agency.

C7.2.5. Travel and Transportation

C7.2.5.1. Heads of DoD Components may authorize payment by NAFIs of expenses for essential travel and transportation of NAFI employees and their dependents in amounts not to exceed those prescribed in Volume II of the JTRs, when such travel and transportation is clearly in the interests of a NAFI.

C7.2.5.2. Transportation of household goods and personal effects, including privately owned vehicles, at the expense of NAFIs may be authorized in connection with the employee's assignment, permanent change of station, or separation, which is initiated by the NAFI and is clearly in the interests of the NAFI. In this regard, Heads of DoD Components may establish cost-reduction programs as described in Chapter 2, paragraph C2.1.2.10. ➡

C7.2.5.3. When a NAFI employee transfers from one DoD NAFI to another, the gaining NAFI is authorized to grant the above travel and transportation allowances to the employee.

C7.2.5.4. Household goods of employees returning for separation from an overseas location may be transported at NAFI expense, if otherwise entitled, from the overseas permanent duty station, place of nontemporary storage, or both, to the place of actual residence, as determined in accordance with JTR, Vol. II, C4004-2. Shipment may be made to a different place designated by the employee provided that any cost to the NAFI in excess of the cost for shipment of household goods in one lot by the most economical route from the overseas permanent duty station to place of actual residence is borne by the employee.

C7.2.5.5. The provisions outlined in Volume II of the JTR, Chapter 14, are also applicable to those employees who are moved from a permanent duty station in CONUS to an overseas permanent duty station and are covered by an unconditional mobility agreement as a condition of employment. These provisions are not applicable to the sale and purchase of a residence in foreign and overseas areas.

C7.2.5.5.1. When employees are transferred to overseas areas and own the residence they occupied at the former duty station in CONUS, the time limit prescribed in Volume II of the JTR for selling that residence shall begin on the date they return to CONUS on PCS reassignment, rather than the date they arrive at the overseas duty station.

C7.2.5.5.2. The above provisions shall not apply to an employee who returns to CONUS on a PCS reassignment to a duty station in the same city or area, as defined by paragraph C4108, Volume II, JTR, provided the employee did not sell the former residence.

C7.2.6. Return Rights. NAFI personnel recruited from a NAFI in the United States for assignment in foreign areas may be afforded (by the same DoD Component) return rights to a suitable position in the United States. The recruiting NAFI will make every effort to provide for return placement at no loss in pay; however, such action shall not be construed as constituting mandatory reemployment.

C7.2.7. Entitlement to Government Quarters and Facilities

C7.2.7.1. NAFI employees in positions for which it is necessary to recruit from the United States shall be accorded full membership in the joint overseas military and civilian team to which they make a significant support contribution. Each overseas military commander shall provide facilities under his or her jurisdiction, including Government quarters and family housing, to NAFI personnel, in accordance with the policies set forth in DoD Directive 1400.6 and other pertinent regulations. The principle of equal treatment of NAFI personnel with appropriated fund personnel at equivalent grade levels shall be followed.

C7.2.7.2. U.S. citizen/U.S. national NAFI personnel traveling on official business may occupy temporary Government quarters, including guest houses, under the same terms and with the same eligibility as appropriated fund personnel.

C7.2.8. Medical and Health Services. U.S. citizen/U.S. national NAFI employees will have access to the same medical and health service provided

appropriated fund personnel, in accordance with the provisions of 5 U.S.C. 7901 and FPM Letter 792-15.

C7.2.9. Privileges. U.S. citizen/U.S. national NAFI personnel shall be afforded the same privileges provided their counterparts who are appropriated fund civilian personnel in the same overseas area, to the extent permitted by country-to-country agreements. These will include commissary, exchange, laundry, transportation, postal services (APO and FPO), recreation, and religious facilities. The basis for extending the privileges of clubs and messes will be according to grade and position responsibility, as determined by overseas commanders.

C7.2.10. Home Leave. Home leave is granted on the basis that it is earned by service abroad for use in the United States, Commonwealth of Puerto Rico, or possessions of the United States. The provisions of subchapter S6, FPM Supplement 990-2, are hereby administratively extended and govern home leave for eligible NAFI employees recruited in the United States and employed in overseas areas, as defined in the FPM.

C7.2.11. Renewal Agreement Travel. Employees who have completed the agreed period of continuous creditable service outside the United States, and outside the employee's place of residence if such residence is in the Commonwealth of Puerto Rico, or in any of the possessions of the United States; and who agree in writing to serve an additional tour of duty at the same or another overseas Nonappropriated Fund Instrumentality, may be authorized renewal agreement travel at the expense of the employing NAFI.

C7.2.11.1. Renewal agreement travel is allowed from an employee's overseas post of duty to his or her place of actual residence at the time of appointment or transfer and for the employee's return to the same or another overseas post of duty.

C7.2.11.2. Time is not chargeable to leave while in a travel status as long as the travel is by the most direct route.

C7.2.11.3. Upon reaching place of actual residence, the employee shall be charged annual leave, home leave, or leave without pay as appropriate.

C7.2.12. Emergency Leave and Travel. Emergency leave may be granted to U.S. citizen/U.S. national NAFI employees assigned outside the United States and entitled to return transportation in cases of emergencies, such as serious injury, illness, or death in the employee's family located in the United States. The period of emergency leave, including travel time, shall be charged to annual leave. If the

employee has no accrued annual leave, he or she may be placed in a leave-without-pay status. Such employees may be provided Government transportation on a space-available basis. Red Cross confirmation of the emergency should be secured prior to the approval of the leave and transportation.

C7.2.13. Local Holidays in Foreign Countries. Local national NAFI employees may be authorized time off to observe certain local national holidays. Such authorization is subject to country-to-country agreements. When all or part of an installation is closed in observance of such a local holiday and, as a result, U.S. citizens/U.S. nationals and third country nationals are thereby prevented from working, they shall be assigned to other work if possible. Otherwise, such employees may be excused without charge to leave or loss of pay.

C7.2.14. Employee Benefits. Insurance, retirement, medical, and other employee benefits for local national NAFI employees are established by agreements with the host country. Regardless of the place of their recruitment, U.S. citizens shall earn annual leave and accrue sick leave credits in accordance with the policy governing employees in CONUS, as outlined in Chapter 4.

C7.2.15. Care and Disposition of Remains of Deceased Employees. All benefits authorized for the care, preparation, and disposition of the remains of deceased U.S. citizen employees of the Department of Defense paid from appropriated funds shall be accorded equally to RFT and RPT U.S. citizen NAFI employees who are employed outside of the CONUS and who are not dependents of U.S. military personnel who would otherwise be entitled to such care and disposition of remains from appropriated funds. All items and expenses authorized to be furnished by the Government on a reimbursable basis shall be billed to and funded by the employing NAFI.

C7.2.16. Evacuation of NAF Employees and Family Members

C7.2.16.1. Heads of DoD Components shall prescribe regulations, subject to the approval of the Secretary of Defense, governing NAF employee entitlements in emergency situations; procedures for financial assistance to NAF family member evacuees; and employment status of NAF-paid personnel during and after an evacuation or crisis situation.

C7.2.16.2. Entitlement to emergency evacuation for NAF employees, as well as the payment of allowances and benefits, is authorized for eligible employees as prescribed by the Department of State Standardized Regulations.

C8. CHAPTER 8

**CIVILIAN ASSISTANCE AND RE-EMPLOYMENT (CARE) FOR NAF
EMPLOYEES AFFECTED BY WORKFORCE REDUCTIONS**

[This information is now published in DoD 1400.25-M, "Civilian Personnel Manual,"
Subchapter 1417]

A1. APPENDIX 1

UNIVERSAL ANNUAL PAY ADMINISTRATION SUPPLEMENT

[This information has been abolished]

A2. APPENDIX 2

RETIREMENT AND INSURANCE SUPPLEMENT

A2.1. CREDITED NAFI EMPLOYEE SERVICE

After attaining eligibility for an annuity, the following, if applicable, shall be added to arrive at total credited NAFI employee service for computing the amount of the annuity.

A2.1.1. Unused Sick Leave. Unused sick leave that has been accumulated by an employee at the time of his or her retirement shall be added to the employee's period of credited service in order to determine the total period of credited service.

A2.1.2. Military Leave of Absence. During the time an employee is carried on leave without pay because of interruption of his or her credited NAFI service by honorable active U.S. military service, he or she remains in a continuous service status, not to exceed 5 years, provided the employee returns to civilian NAFI employment within the period of time prescribed by 38 U.S.C. Chapter 43. Duplicate NAFI service credits will not be granted for the same period of time.

A2.2. AMOUNT OF ANNUITY AT NORMAL (AGE 62) OR DEFERRED RETIREMENT

The amount of yearly retirement annuity payable to an employee, commencing at his or her normal or deferred retirement date shall be the amount of the annuity formula reduced by the social security offset. When the amount of the yearly annuity is computed on a basis of other than the annuity formula reduced by the social security offset, multipliers shown in subsection A2.2.2., below, may be adjusted so that the annuity, when added to social security, shall be at least equal to the results of the application of the annuity formula reduced by the social security offset.

A2.2.1. "High-3" Average Compensation. "High-3" average compensation means the highest average rate of basic annual compensation for any 36 consecutive months for which contributions were made to the employee retirement program.

A2.2.2. Annuity Formula. The sum of the annuity formula (explained in paragraph A2.2.2.1. and A2.2.2.2., below) shall not exceed 80 percent of the high-3 average (paragraph A2.2.2.3.).

A2.2.2.1. For each of the first 10 years of credited service, 1-1/2 percent of

"high-3" average compensation or, if greater, 1 percent of "high-3" average compensation plus \$25.

A2.2.2.2. For each year of credited service after the 10th year, 2 percent of "high-3" average compensation or, if greater, 1 percent of "high-3" average compensation plus \$25.

A2.2.2.3. Eighty percent of "high-3" average compensation.

A2.2.3. Minimum Annuity. A minimum annuity shall be provided only to the degree necessary to prevent low-paid vested plan participants from retiring without some NAFI-provided annuity.

A2.2.4. Social Security Integration - Social Security Offset. Heads of Components may integrate NAF pension plan benefits with Social Security benefits. Integration may be accomplished by the Social Security offset method whereby a person's pension is reduced by an appropriate percentage of the person's Social Security benefit.

It should be noted that a reduction or elimination of the Social Security offset to a NAF plan, without making other changes to the plan, would increase the amount of the plan's pensions (see Chapter 6, C6.1.2.).

Heads of Components should periodically review their NAF plan(s) pension integration and basic annuity computation formulas and make changes as appropriate.

A2.2.5. Retention of Accrued Credited Service for Retirement Annuity Purposes

A2.2.5.1. When an RFT DoD Component NAFI employee, who is participating in the Component's NAFI retirement plan, terminates employment (for reasons other than retirement) and is employed by another DoD Component NAFI within 90 calendar days, and the gaining NAFI offers a different retirement plan, the employee may carry forward his or her credited service accrued for retirement annuity purposes. The reemployed employee shall carry forward all prior credited service as accrued up to the date of termination or subsequent termination. (Exception: If the gaining NAFI retirement plan does not cover part-time employees, then crediting part-time service from a different NAFI is not required.)

A2.2.5.2. Upon retirement from the gaining DoD Component NAFI, the employee's retirement annuity shall be the same as if the entire period of combined creditable RFT NAFI service had been creditable under the gaining DoD Component

NAFI retirement plan. The retirement annuity so determined under the gaining NAFI retirement plan shall then be reduced by the amount or amounts that would be payable under the losing NAFI retirement plan or plans. When an employee terminates employment with the losing NAFI before becoming vested, the employee will not be entitled to any benefits from the losing NAFI, except for a withdrawal of his or her own contributions. However, credited service rendered for the losing NAFI shall be carried forward and counted when determining the employee's accrued benefits and shall further be counted in determining the employee's position on the vesting schedule of the gaining NAFI retirement plan. However, the position on the vesting schedule is not applicable for determining any eligibility for a disability annuity, as the requirements for such vesting are those of the gaining NAFI's retirement plan only. When such terminated employee withdraws his or her contributions before becoming vested, the retirement benefits due from the gaining NAFI plan shall be reduced and offset by the amount as specified in subparagraph A2.2.5.2.4., below.

A2.2.5.2.1. The retirement annuity for such an RFT NAFI employee shall be computed using the gaining NAFI's retirement plan computation. It shall be based on all accrued credited service as rendered under the prior DoD Component NAFI employee retirement plan or plans, plus all service creditable under the gaining DoD Component's NAFI retirement plan or plans. The losing DoD Component NAFI shall transfer such data as required to the gaining NAFI in accordance with paragraph A2.2.5.2., above. The gaining DoD Component NAFI shall disregard any service rendered in a part-time capacity, if such service is not otherwise credited for its own part-time employees.

A2.2.5.2.2. The resultant annuity, based on all credited service (including service rendered before the employee became vested) shall be offset by the amount or amounts that would be payable under the losing DoD Component NAFI retirement plan or plans, at age 62, without regard to whether the employee has or has not withdrawn his or her prior contributions and after application of the social security offset. If the employee is 62 at the time of termination from the losing DoD Component NAFI, the amount of the offset shall be that amount that would be payable if the employee had retired and commenced immediate receipt of the annuity at the time of that termination.

A2.2.5.2.3. For purposes of determining the offset mentioned in subparagraph A2.2.5.2.2., above, the annuity amount accrued during the prior periods of employment shall be as reported in accordance with subparagraphs A2.2.5.3.3. or A2.2.5.3.4., below. The actual calculation shall be based upon the annuity formula in effect at the time of termination of employment from the prior DoD Component

NAFI. In calculating this annuity, the social security offset shall be applied as of the date of termination. To the extent that employee was not vested at his or her prior termination date from a losing NAFI, the annuity amount for which the losing NAFI shall be liable, assuming such employee withdrew his or her contributions, shall be equal to zero. However, as stated in paragraph A2.2.5.2.2., above, credited service shall be carried forward and counted when determining the employee's accrued benefits with the gaining NAFI, subject to the offset provided in subparagraph A2.2.5.2.4., below.

A2.2.5.2.4. When an employee was not vested at his or her prior termination from a losing NAFI and when such terminated employee withdraws his or her prior contributions, the gaining NAFI shall reduce benefits otherwise due by an offset. The offset shall be equal to the annuity amount which the employee's own contributions would have been sufficient to fund for him or her, assuming such contributions had continued on deposit since initially contributed.

A2.2.5.3. In the case of each affected, or potentially affected, employee, it is the responsibility of the gaining DoD Component NAFI retirement plan administrator to request from the counterpart losing DoD Component retirement plan administrator or administrators, a statement setting out:

A2.2.5.3.1. The employee's name (last, first, M.I.), social security number, date of birth, beginning and ending periods of NAFI RFT employment, RPT employment, and number of years (including partial years) of accrued credited service for annuity accrual purposes under the losing DoD Component's NAFI retirement plan.

A2.2.5.3.2. The salary or wage history of the employee, including an explanation of the years used in calculating average compensation upon which the annuity calculation is based.

A2.2.5.3.3. The actual calculation of the resultant accrued annuity amount, assuming commencement of such benefit at age 62. If a terminating employee previously withdrew his or her employee contribution, two separate calculations shall be provided as follows:

A2.2.5.3.3.1. The annuity such participant would have received had he or she left all employee contributions in the plan (this amount shall represent the amount of the actual offset to such gaining NAFI retirement plan).

A2.2.5.3.3.2. The annuity amount actually due the employee, if any, and the date benefits are scheduled to commence.

A2.2.5.3.4. If a terminated employee was not vested at his or her termination date, the losing NAFI shall specify the annuity amount that the employee's own contributions would have been sufficient to fund for him or her, assuming such contributions had continued on deposit since initially contributed. In addition to specifying this amount, the losing NAFI shall further specify to the gaining NAFI whether or not a benefit is actually due for contributions not previously withdrawn.

A2.2.5.4. It is the responsibility of the losing DoD Component NAFI retirement plan administrator to provide promptly the above data upon request. If prior knowledge indicates that the data is needed, the losing NAFI shall furnish any data necessary to provide full and fair disclosure to the gaining NAFI. In the event a terminated employee was not vested at the time of termination, the losing NAFI shall provide the information required in subparagraphs A2.2.5.3.1. and A2.2.5.3.4., above.

A2.2.5.5. The gaining DoD Component NAFI retirement plan administrator shall record the applicable employee statistics as supplied in subparagraphs A2.2.5.3.1. through A2.2.5.3.4., above, in the affected employee's retirement plan records and apply the offset when retirement annuity payments commence. If retirement benefits are to commence before age 62, the gaining NAFI shall actuarially reduce the amount of the offset (to be applied from the losing NAFI or NAFIs) so as to reflect the early payments of benefits.

A2.2.5.6. The gaining NAFI shall notify the losing NAFI or NAFIs of the employee's actual retirement date and the date annuity benefits are to commence. Under standard practice, an employee shall be eligible to withdraw his or her own contributions from the losing NAF retirement plan but the employee shall not be eligible to receive his or her retirement benefits from the losing NAFI retirement plan or plans until actual retirement from the gaining NAFI.

A2.2.5.7. The above portability shall not apply to a terminating employee who is eligible and has since commenced receiving, or is about to receive, a retirement annuity from the losing NAFI plan. In this event, the employee shall be considered a new employee with the gaining DoD Component NAFI.

A2.2.5.8. The losing NAFI shall not transfer and the gaining NAFI shall not require the transfer of any pension assets to accomplish the intent as outlined here.

A2.3. SURVIVOR BENEFITS

Survivor benefits may be provided in one or more of the following forms:

A2.3.1. Survivor's Annuity on Death of Employee

A2.3.1.1. Eligibility. If an employee dies while employed, and after completion of at least 60 months of credited NAFI service, an annuity shall be payable to the surviving spouse. The spouse must have been married to the employee for at least 1 year immediately preceding the employee's death or be the parent of a child born of the marriage.

A2.3.1.2. Amount of Survivor Annuity on Death in Service. The amount of the survivor annuity payable to an eligible surviving spouse shall be 55 percent of the greater of the amounts determined under subparagraphs A2.3.1.2.1. or A2.3.1.2.2., below, minus A2.3.1.2.3., below:

A2.3.1.2.1. The annuity formula - without reduction for age of employee at time of death.

A2.3.1.2.2. The lesser of the amounts determined under subparagraphs A2.3.1.2.2.1. or A2.3.1.2.2.2., below:

A2.3.1.2.2.1. Forty percent of the employee's "high-3" average compensation.

A2.3.1.2.2.2. The annuity formula after increasing credited service by the period from the employee's date of death to age 60.

A2.3.1.2.3. One hundred percent of any surviving spouse's benefit currently payable under the Social Security act.

A2.3.1.3. Adjustment of Amount of Survivor Annuity. The amount of survivor annuity shall be adjusted upon commencement, cessation, or recommencement of a surviving spouse's benefit under the Social Security Act. The amount of the survivor's Social Security income award shall be applied automatically as an offset when the surviving spouse becomes 60 years old or, if later, upon the death

of the employee without regard to whether the surviving spouse actually elects to commence receipt of it. The amount may not be adjusted because of changes in the social security benefits created by an amendment to the Social Security Act or by automatic increases in social security benefits reflecting increases in the Consumer Price Index.

A2.3.1.4. Duration of Payment of Survivor Annuity Following Death in Service. The surviving spouse's annuity payments are payable as of the 1st day of each month following the employee's death. Payments shall continue until the last monthly payment before the earlier of the following dates:

A2.3.1.4.1. The death of the surviving spouse.

A2.3.1.4.2. The date of remarriage of the surviving spouse if such marriage occurs before age 60.

A2.3.1.5. Conditions for Termination and Recommencement of Survivor Annuity (Death in Service). A survivor annuity that is terminated because of remarriage before age 60 may again become payable if the remarriage is terminated by death, annulment, or divorce and if the surviving spouse repays any lump-sum benefit that was paid upon termination of the annuity. Such repayment may be made by withholding the annuity payable until the lump-sum benefit paid is satisfied.

A2.3.2. Survivor's Annuity on Death of Annuitant After Retirement

A2.3.2.1. Eligibility

A2.3.2.1.1. If an employee is married when he or she retires, unless the employee elects not to provide for a surviving spouse annuity, his or her annuity is automatically reduced actuarially and a survivor annuity shall be payable to the surviving spouse. A plan may provide for a uniform 10 percent reduction instead of an actuarial reduction.

A2.3.2.1.2. If an employee is not married when he or she retires, the employee may elect an annuity with a survivor benefit provided proper medical authority recommends to the Head of the DoD Component that the employee is in good health for his or her age. In such event, the employee's annuity shall be reduced actuarially and an annuity shall be payable to the child (or children) or another person having an insurable interest designated by name.

A2.3.2.2. Amount of Survivor Annuity (Death After Retirement). The

amount of the survivor annuity shall be 55 percent of all or any of the portion of the employee's annuity that he or she elects or accepts as a basis for the survivor benefit, calculated as follows:

A2.3.2.2.1. If the employee retires at or after age 62, the amount payable to the surviving spouse shall be 55 percent of the portion of the employee's annuity elected as the basis for surviving spouse annuity. This 55 percent factor shall be calculated against the applicable portion of the employee's annuity before the 10 percent or actuarial reduction is made so as to provide for survivor annuity as prescribed in paragraph A2.3.2.1., above.

A2.3.2.2.2. Upon retirement before age 62, the employee may designate all or any portion of his or her temporary and lifetime annuity as the basis for surviving spouse annuity. (Temporary annuity is the amount that shall be paid only until the employee attains age 62, at which time the social security offset becomes applicable. Lifetime annuity is the amount that shall continue to be paid after the employee attains age 62.)

A2.3.2.2.2.1. If the employee should die before attaining age 62, the surviving spouse annuity shall be reduced (as of the 1st day of the month coincident with or immediately following the date on which the employee would have attained age 62) by 55 percent of the amount of social security offset that would have been applied to the employee's annuity had the employee lived to age 62.

A2.3.2.2.2.2. If the employee dies after age 62, at which time his or her own annuity shall have been reduced by discontinuance of the temporary portion, the surviving spouse annuity shall be 55 percent of the employee's lifetime annuity.

A2.3.2.2.3. When the employee does not have a spouse and elects an annuity with a survivor benefit to a child (or children) or other named person having an insurable interest, the annuity for the designated survivor (or the annuity to be divided among two or more designated children) shall be 55 percent of all or any portion of the employee's lifetime annuity that he or she elects as a base for the benefit remaining after the reduction for the survivor annuity.

A2.3.2.2.3.1. In the event of early retirement (that is, before age 62) and when the retirement plan provides for social security offset, the survivor annuity shall be calculated at 55 percent of the applicable portion of the employee's lifetime annuity (that is, the amount of the employee's annuity that would be payable after

application of the social security offset at age 62, regardless of whether the employee dies before or after age 62).

A2.3.2.2.3.2. If two or more children have been designated by name, the total amount of survivor annuity payable shall be proportionately reduced upon the death of one or more of those designated who were living on the date the employee's retirement annuity became payable, whether such death occurs before or after the death of the employee.

A2.3.2.2.4. If the death of a disability annuitant occurs, the surviving spouse benefit shall equal 55 percent of the elected portion of the employee's annuity before social security offset, less 100 percent of any surviving spouse's benefit payable under Social Security. (A disability annuitant may designate only a spouse for survivor annuity.)

A2.3.2.2.5. When the employee's annuity is computed on a basis other than the annuity formula reduced by the social security offset (see subsection A2.2.4., above), in the case of a provision for the surviving spouse annuity, the computation of the 55 percent shall be applied to the annuity before the 10 percent or actuarial reduction, and in the case of a provision for a child (or children) or other named person, after application of that reduction.

A2.3.3. Lump-Sum Death Benefit. This benefit applies only when the employee's contributions with interest exceed the annuity paid or payable.

A2.3.3.1. Amount. The amount of any lump-sum death benefit when an annuity is not payable, shall be equal to subparagraph A2.3.3.1.1. minus A2.3.3.1.2., below:

A2.3.3.1.1. The employee's contributions to the plan, with interest, to the earliest of the 1st day of the month in which the employee's death occurs, or the date annuity payments become payable to the employee.

A2.3.3.1.2. The sum of all annuity payments made to the employee or a survivor, whether the survivor is a surviving spouse or children designated by name or another person having an insurable interest.

A2.3.3.2. Events Warranting Lump-Sum Payment. A lump-sum death benefit, if any, becomes payable on a date determined as follows:

A2.3.3.2.1. When no survivor annuity is payable, the date of death of the employee.

A2.3.3.2.2. When a survivor annuity is payable, the date of death of the last survivor to whom an annuity is payable or, if earlier, the date on which a survivor annuity ceases because of remarriage before age 60.

A2.3.3.2.3. When a surviving spouse would qualify for a survivor annuity upon or after the death of an employee, but no survivor annuity would be payable because the social security benefit provides the full amount or more, a lump-sum death benefit shall be payable to the spouse. In such circumstances, if a survivor annuity becomes payable at a later date because of cessation of social security benefits, the survivor shall be required to refund the amount of any paid lump-sum death benefit. Repayment may be made by withholding the annuity payable until the paid lump-sum benefit is satisfied.

A2.4. DISABILITY BENEFITS

A2.4.1. Amounts. The amount of the disability benefit shall be equal to the greater of the amounts determined under paragraphs A2.4.1.1. or A2.4.1.2. minus A2.4.1.3., below:

A2.4.1.1. The annuity formula - without reduction, regardless of the employee's age.

A2.4.1.2. The lesser of the amounts determined under subparagraphs A2.4.1.2.1. or A2.4.1.2.2., below:

A2.4.1.2.1. Forty percent of the employee's "high-3" average compensation.

A2.4.1.2.2. The annuity formula after increasing credited service by the period from the employee's date of separation for disability to age 60.

A2.4.1.3. One hundred percent of any benefit that the employee is entitled to under the Social Security Act, provided that on or after the date the employee attains age 62, this amount shall be no less than 12 times the monthly primary insurance amount for the employee as of the date the employee attains age 62.

A2.4.2. Recomputation. The amount of the disability annuity shall be

recomputed whenever social security benefits payable to the employee commence, cease, or recommence. The amount shall not be recomputed or adjusted on account of changes in the Social Security Act or by automatic increases in social security benefits reflecting increases in the Consumer Price Index.

A2.4.3. Duration. Disability annuity payment shall continue, provided the employee remains totally and permanently disabled, until normal retirement annuity payments begin. When the employee reaches normal retirement age, he or she may elect to continue on disability annuity or receive a regular retirement annuity instead.

A2.5. TERMINATION OF EMPLOYMENT OR CHANGE IN EMPLOYMENT STATUS

The following options are available to an employee when, for any reason other than death, his or her service is terminated before a normal or earlier retirement, or the employment status is changed so that the employee is ineligible to continue to participate in the retirement plan.

A2.5.1. Option A. An employee may have all his or her contributions returned; and in addition, if the employee has been employed for 3 full years, for which he or she has made contributions, such employee shall receive interest on these contributions. No interest is payable for an employee who terminates before completing 3 full years of credited service.

A2.5.2. Option B

A2.5.2.1. An employee who has completed more than 5 years of credited service but is still under age 30, may leave his or her own contributions in the plan and later receive an annuity commencing on his or her normal retirement date, if the employee is then living, in the amount that the employee's contributions have been sufficient to purchase for him or her.

A2.5.2.2. An employee who has completed 5 or more years of credited service and has attained the age of 30 shall receive an annuity at normal retirement age based on his or her and the employer's contributions.

A2.5.2.3. If the amount of annuity payable would be \$600 per year, or less, a one-time lump-sum payment of equivalent actuarial value may be made instead.

A2.5.2.4. An employee who has elected Option B may elect to have his or

her annuity begin on the 1st day on any month during the 10-year period immediately preceding his or her normal retirement date. In this case, however, the employee's annuity shall be reduced at the rate of one-third of 1 percent for each month (4 percent each full year) by which the elected annuity commencement date precedes age 62.

A2.6. GROUP LIFE INSURANCE

Life insurance shall be provided in an amount equal to an employee's annual pay rounded to the next higher thousand plus \$2,000.

A2.7. ACCIDENTAL DEATH AND DISMEMBERMENT

This coverage shall be furnished in an amount equal to the life insurance coverage subject to the customary schedules for dismemberment and the usual exclusions, including physical or mental infirmity or disease, ptomaine or bacterial infection, medical or surgical treatment (unless made necessary by a covered injury), suicide, or intentionally self-inflicted injury, or war or any act of war.

A2.8. COMPREHENSIVE MEDICAL EXPENSE

A2.8.1. Comprehensive Medical Expense Benefits. Comprehensive medical expense benefits cover medical expenses that result from serious or prolonged disabilities as well as from ordinary injuries or diseases, regardless of the number of injuries or diseases suffered. Benefits shall not only be payable for expenses arising in the hospital, but also for medical charges that are not a part of the bill.

A2.8.2. Amount of Benefits. The amounts of benefits shall be:

A2.8.2.1. One hundred percent of the first \$1,000 of allowable hospital expense incurred in any calendar year, plus 80 percent of the amount in excess of a deductible. (See subsection A2.8.3., below.)

A2.8.2.2. Eighty percent of reasonable and customary surgical expenses incurred in any calendar year, in excess of a deductible (see subsection A2.8.3., below).

A2.8.2.3. Eighty percent of other medical expenses in excess of a deductible in any calendar year. However, for excess expenses which are for treatment of a mental or nervous disorder while not confined in a hospital as an inpatient, the benefit shall be 50 percent.

A2.8.3. Deductible. The deductible is the amount of covered charges that plan participants must incur before the plan pays benefits. Deductibles should not be abnormally high or low. Therefore, the Heads of DoD Components shall establish deductibles that are in line with prevailing deductibles established by private sector employers for similar health plans. The Heads of Components shall determine such prevailing deductibles by keeping abreast of applicable surveys and studies often reported in employee benefit industry periodicals, and by consulting with private sector employee benefit consulting firms and insurance companies. Such consultation could be accomplished during the normal course of business with such organizations. Another factor that needs to be considered when setting deductibles is the impact it has on total employee cost, considering the amount of the employee premium. For example, a high deductible increases employee cost and may not be appropriate if the employee premium is already higher than normally found in similar private sector plans.

A2.8.4. Lifetime benefit. For any plan offered, including low-option type plans, the lifetime benefit for all incurred covered medical expenses combined shall be unlimited. This unlimited lifetime amount applies separately to each insured family member.

A2.8.5. Second Surgical Opinions. Each plan, including low-option type plans, shall reimburse 100 percent of the expense incurred for a second surgical opinion, and a third one, if the first two opinions do not agree.

A2.8.6. Catastrophic Coverage. Each plan, including low-option type plans shall provide a maximum-out-of-pocket limit so that when any insured family member's costs exceed a predetermined fixed amount, the plan will pay 100 percent of that person's costs for the rest of the calendar year. There shall be a maximum-out-of-pocket limit for the family so that when a family's total costs exceed a predetermined fixed amount, the plan will pay 100 percent of the family's costs for the rest of the calendar year.

A2.8.7. Coordination With Other Benefits. The medical expense benefits program is designed to help meet the cost of disease or injury. Since it is not intended that greater benefits be received than the actual medical expenses incurred, the amount

of benefits payable under the program shall take into account any coverage a family member has under other group plans; that is, the benefits under this program shall be coordinated with the benefits of the other group plans.

A2.8.8. Effect of Medicare. The Heads of DoD Components shall ensure that the coordination of Medicare with NAFI employee benefit provisions shall be in compliance with currently applicable laws, rules, and regulations.

A2.8.9. Dependents. The following categories of dependents shall be eligible for coverage under the comprehensive medical benefits programs:

A2.8.9.1. The employee's spouse.

A2.8.9.2. Unmarried children under age 19.

A2.8.9.3. Unmarried children under age 23 who are full-time students and also receive over 50 percent of their support from the employee.

A2.8.9.4. A child of any age who is physically or mentally handicapped and who depends on the employee for support, if the handicap existed before the child's 22nd birthday, or 23rd birthday if the child met the conditions of the previous paragraph A2.8.9.3. at the time he/she became handicapped.

A2.8.9.5. The term "children" shall include the employee's natural children, adopted children, stepchildren, foster children, and other children who are dependent upon the employee for support and live with the employee in a regular parent-child relationship.

A2.8.10. Extension of coverage. At the option of the Component, if a covered employee loses eligibility for comprehensive medical expense coverage for any reason except voluntary cancellation, he/she may continue to be insured for comprehensive medical expense coverage for the 90-day period immediately following the date he/she ceases to be eligible, if he/she:

A2.8.10.1. Makes application for such extended coverage before such date;

A2.8.10.2. Biweekly pays employee's and employer's share of the premium;
and

A2.8.10.3. Has been continuously insured under the policy during the 3 months immediately preceding the date eligibility ceases. The premium payable shall

be at the then applicable rate of the policy. No evidence of insurability or medical examination shall be required to continue such coverage.

A2.9. CONVERSION PRIVILEGES

When by reason of termination or other change in his or her employment status, an employee is ineligible to continue to participate in the group life insurance or group medical plan, conversion privileges to individual life policies or individual medical expense policies shall be made available, in accordance with the conditions of the insurance policy in force. Life insurance and medical expense policies, if converted to individual policies within 31 calendar days of termination of the group life or group medical plan coverage, shall be issued without medical examination and at the insuring company's or companies' regular rates for individual life insurance or medical expense benefits plans. The whole cost of such insurance shall be borne by the insured.

A2.10. WAIVER OF BENEFITS

Eligible employees who decline to enroll or participate in the retirement plan, the comprehensive medical expense plan, the life insurance plan, the accidental death and dismemberment plan, or the disability plan, shall be required to sign a waiver. The waiver shall explain the benefits declined (or shall refer the employee to documents that explain the benefits declined) and the impact the decision to decline has on the employee's subsequent ability to enroll in such benefit plans, including waiting period and evidence of insurability requirements. The signed waiver, or a memorandum for the record signifying the employee's refusal to sign a waiver, shall be placed in the employee's Official Personnel Folder.

A2.11. BENEFITS FOR RETIREES

The following insurance benefits shall be provided to eligible retired employees. The Heads of Components may decide not to charge retirees for these benefits.

A2.11.1. Life Insurance

A2.11.1.1. Eligibility. When an employee retires at normal retirement date (age 62), or thereafter, with at least 5 years of credited service, and with 15 or more years of accumulated participation in the group life insurance program for active employees, he or she shall be eligible for the group life insurance program for retired employees on the date retired, provided the employee was insured under such program

on the day before retirement.

A2.11.1.2. Amount. Upon retirement on or after age 62, an amount of group life insurance shall be continued, based on the amount of life insurance in force on the day before retirement, until attaining age 65. Upon attaining age 66, the amount of life insurance shall be reduced by 25 percent of the amount in force just before attaining age 65. It shall be reduced thereafter by a further 25 percent on each of the 67th and 68th birthdays and it then shall remain at 25 percent of the amount of insurance in force just before attaining age 65.

A2.11.2. Comprehensive Medical Expenses

A2.11.2.1. Employees who retire and have been participating in the health plan for a reasonable length of time, and their dependents, shall be provided continued medical coverage. Dependents (other than those children whose coverage would be canceled at age 19 or 23) shall be eligible for continuous coverage until receiving Medicare coverage at age 65, regardless of the retiree's age.

A2.11.2.2. When the retiree or dependent receives Medicare coverage at age 65, the Heads of Components are encouraged to at least structure their plans so that Medicare becomes the primary carrier, and the NAFI plan becomes the secondary payer of benefits using the "Government exclusion" method of integration, subtracting Medicare payments before applying deductible and copayment provision.

A3. APPENDIX 3

POSITION CLASSIFICATION REVIEW AND APPEAL PROCEDURES FOR
ADMINISTRATIVE SUPPORT, PATRON SERVICES, AND UNIVERSAL ANNUAL
POSITIONS

[This information is now published in DoD 1400.25-M, "Civilian Personnel Manual,"
Subchapter 1405, Appendix A]

A4. APPENDIX 4

NAF PAY ADMINISTRATION (Hourly Paid Employees)

[This information is now published in DoD 1400.25-M. "Civilian Personnel Manual," Subchapter 1405, Appendix B]

A5. APPENDIX 5

PROCEDURES FOR REQUESTING INCREASED MINIMUM RATES (Hourly Paid
Employees)

[This information is now published in DoD 1400.25-M, "Civilian Personnel Manual,"
Subchapter 1405, Appendix B]

A8. APPENDIX 8

PAYBAND CLASSIFICATION AND PAY SYSTEM FOR WHITE-COLLAR NAF
EMPLOYEES

[This information is now published in DoD 1400.25-M, "Civilian Personnel Manual,"
Subchapter 1405, Appendix A]